PROVINCE OF SASKATCHEWAN

REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE

YEAR ENDED MARCH 31

1989

90-04711/

Provincial Auditor Saskatchewan

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March 26, 1990

The Honourable A. B. Tusa,
Speaker of the Legislative Assembly
of Saskatchewan.

I have the honour to submit my Annual Report for the fiscal year ended March 31, 1989, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

G. F. Wendel, C.A.,
Acting Provincial Auditor.

REPORT OF THE PROVINCIAL AUDITOR
1989

Table of Contents

Chapter	Topic	Page
	Introduction and Overview	1
1	Accountability Process	7
2	Corporation Accountability	8
3	The Tabling of Documents Act	10
4	The Government Organization Act	11
5	Agricultural Credit Corporation of Saskatchewan	12
6	Board of Internal Economy	13
7	Crown Investments Corporation of Saskatchewan	14
8	Department of Agriculture	19
9	Department of Consumer and Commercial Affairs	26
10	Department of Economic Development and Tourism	28
11	Department of Education	31
12	Department of Environment and Public Safety	39
13	Department of Finance	42
14	Department of Health	52
15	Department of Highways and Transportation	60
16	Department of Justice	66
17	Department of Parks, Recreation and Culture	70
18	Department of Science and Technology	73
19	Department of Social Services	74
20	Department of Urban Affairs	77
21	New Careers Corporation	78
22	Northern Forest Operations Ltd.	79

REPORT OF THE PROVINCIAL AUDITOR
1989

Table of Contents

Chapter	Topic	Page
23	Office of the Executive Council	81
24	Potash Corporation of Saskatchewan	82
25	Provincial Secretary	83
26	Saskatchewan Auto Fund	85
27	Saskatchewan Centre of the Arts	87
28	Saskatchewan Crop Insurance Corporation	88
29	Saskatchewan Forest Products Corporation	90
30	Saskatchewan Housing Corporation	91
31	Saskatchewan Liquor Board	95
32	Saskatchewan Property Management Corporation	96
33	Saskatchewan Transportation Company	112
34	Westank Industries Ltd.	113
35	Western Development Museum	114
Appendix I	The Provincial Auditor Act	
Appendix II	Reports of Appointed Auditors Part I and Part II	
Appendix III	Audits Not Completed At March 9, 1990	
Appendix IV	List of Financial Statements and/or Annual Reports Not Tabled in the Legislative Assembly in the Manner Required By Convention	

INTRODUCTION AND OVERVIEW

INTRODUCTION

1. This Annual Report to the Members of the Legislative Assembly (Members) is prepared in accordance with Section 12 of The Provincial Auditor Act. The 1989 Annual Report is my first report issued in the capacity of Acting Provincial Auditor.

2. Mr. Willard Lutz, FCA, retired as Provincial Auditor on November 30, 1989 after having served as Provincial Auditor for 18 years. Many of the observations contained in this Annual Report were the result of audits completed while Mr. Lutz was Provincial Auditor. However, because of his retirement, he was not involved in the preparation of this Annual Report.

3. The law requires the Provincial Auditor to report where, in his opinion, the administration of public money was deficient. Most reportable items are instances of non-compliance with the law, deficiencies in the rules and procedures to safeguard and control public money, and instances where accounting and reporting practices could be improved.

4. The law does not require the Provincial Auditor to report on any matter that is, in his opinion, immaterial or insignificant. This Annual Report is, therefore, an exception report of the matters that, in my opinion, require the attention of the Members and by its nature does not give credit where the audits found the administration of public money was satisfactory.

5. It has generally been my experience that where deficiencies in the management of public money were reported, corrective action was taken.

6. The audit observations in this report result from all audits completed including information from appointed auditors up to the date this report is signed. Significant matters resulting from audits completed after that date will be covered by the next annual report. A list of audits not completed is contained in Appendix III.

AUDIT SCOPE

7. The Provincial Auditor is an Officer of the Legislative Assembly (Assembly) and has the responsibility to audit all of the accounts of the Government of Saskatchewan and report to the Assembly.

8. Every agency of the government is subject to an annual audit by the Provincial Auditor.

9. The audits are conducted in accordance with generally accepted auditing standards. The audits consist of tests and other procedures considered necessary to form audit opinions on:

- the adequacy of the control systems used by an agency to safeguard and control public money;
- an agency's compliance with the law with regard to its spending, revenue raising, borrowing and lending activities; and
- the financial statements prepared by management of an agency.

10. The audits conducted do not include procedures necessary to:

- form opinions on the adequacy of management systems, controls and practices to ensure due regard to economy, efficiency and effectiveness;
- determine the extent to which resources have been managed with due regard to economy and efficiency; and
- determine the extent to which programs, operations or activities of an entity have been effective.

11. The Provincial Auditor previously reported that The Provincial Auditor Act does not explicitly require the Provincial Auditor to examine, ascertain and report to the Assembly on matters related to economy, efficiency and effectiveness.

12. The Provincial Auditor also reported that the auditing and reporting of this Office would not be expanded until the Standing Committee on Public Accounts deals with its recommendation to review the question of comprehensive auditing.

Control Systems

13. The objective of an audit of a system of internal control is to form an audit opinion as to whether the system of internal control in effect at a date, taken as a whole, was sufficient to meet management's objectives as they pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to the agency.

14. Management is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The system of internal control should provide management with reasonable, but not absolute assurance that:

- the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

- all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

- transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

15. Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

16. Where, in my opinion, the control systems used by an agency are deficient, I audit additional transactions whenever possible. This is done to determine whether, for those transactions selected:

- there was any wilful or negligent non-collection of public money;

- public money has been duly accounted for and paid into the appropriate fund;

- appropriations were exceeded or applied to unauthorized purposes;

- expenditures had adequate authority and were properly vouchered or certified; and

- there has been a deficiency or loss to the crown.

17. This audit of the additional transactions is also conducted in accordance with generally accepted auditing standards. It consists of tests and other procedures I consider necessary under the circumstances.

Compliance With The Law

18. The objective of an audit for compliance with the law is to form an audit opinion as to whether an agency has complied, in all significant respects, with the provisions of legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year.

19. It is a primary responsibility of agencies in the public sector to ensure that they have complied, in all material respects, with the laws related to their financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities.

20. Audit evidence is sought to provide reasonable assurance that the agency has complied with the applicable legislative and related authorities. The attainment of absolute audit assurance is not possible because of the inherent limitations of internal control, the need for judgement, and the use of testing.

21. Not all non-compliance with legislative and related authorities will result in a reportable matter. Minor instances of non-compliance may not be detected by the audit. Also, minor instances of non-compliance may not be reported because they are insignificant. Professional judgement is used in determining the significance of the matter.

Financial Statements

22. The objective of an audit of financial statements is to form an audit opinion as to whether the financial statements of the agency present fairly its financial position, the results of its operations and the changes in its financial position in accordance with an appropriate disclosed basis of accounting.

23. It is the responsibility of management of an agency to ensure the agency's financial statements present fairly its financial position, the results of its operations and the changes in its financial position in accordance with an appropriate disclosed basis of accounting.

24. Audit evidence is sought to provide reasonable assurance that the financial statements as a whole are not materially misstated. The attainment of absolute assurance is not possible because of the inherent limitations of internal control, the need for judgement, and the use of testing.

25. The determination of when the financial statements as a whole are materially misstated is a matter of professional judgement.

APPOINTED AUDITORS

26. The law permits another auditor (appointed auditor) to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money. The law also permits the Provincial Auditor to rely on the appointed auditor to fulfill his responsibilities.

27. Where the accounts of an agency are audited by an appointed auditor, that auditor is not a substitute for the Provincial Auditor. I continue to be responsible to form the opinions set out in paragraph 9.

28. For the year 1988-89, approximately 50% of public spending was audited by appointed auditors. Since I continue to have responsibility for the audit of all public money, the reliance on appointed auditors increases the amount of audit risk assumed in fulfilling this responsibility.

29. Audit risk must be re-evaluated each year. It can be managed by audit procedures performed by the Provincial Auditor at individual entities. The extent of these direct audit procedures at individual entities is a matter of professional judgement.

30. The audit risk has been reduced to an acceptable level for the 1989 fiscal year by communicating with the appointed auditors, reviewing their work and reports, and conducting limited direct audit procedures at the individual entities, except where noted in this report.

31. Where there is an appointed auditor, it is imperative that there is full co-operation among all parties, including the Crown agency. Where there is not full co-operation, there is a risk Members will not receive the information required under The Provincial Auditor Act. Co-operation has been received except where noted in this report.

32. The Provincial Auditor explained in his 1988 annual report that is not possible to determine if reliance on an appointed auditor is justified until after the year end. Where reliance is not justified, it is not possible to conduct additional audit work on the management control systems because the year end has passed. In these cases Members will not receive the information required under The Provincial Auditor Act.

33. The law permits reliance on appointed auditors when their work and reports are satisfactory. If I am not satisfied, I must by law conduct my own audit procedures and report the reason for the non-reliance, the nature of the additional audit work and the results to the Legislative Assembly.

34. The law permits appointed auditors to conduct their audits of public money in the manner they consider necessary using generally accepted auditing standards. The appointed auditors must prepare reports on the results of their audits, which are to be submitted to the Provincial Auditor. The law requires the Provincial Auditor to compile these reports and include them as part of his annual report.

35. Appendix II contains a list of the reports received from appointed auditors' which indicated there was nothing of significance to be reported in accordance with Section 12 of The Provincial Auditor Act. Since this annual report is an exception report (see paragraphs 3. and 4.), the contents of these reports have not been reproduced.

36. Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of The Provincial Auditor Act, the contents of these reports have been reproduced in Appendix II.

37. At the date of this report, discussions continue with appointed auditors and work remains to be completed by this office for some Crown agencies audited by appointed auditors. Consequently, I have been unable to determine whether or not I can rely on their reports. A list of these Crown agencies is contained in Appendix III. The Appendix also contains a list of Crown agencies where appointed auditors have not submitted reports to the Provincial Auditor.

ORGANIZATION OF ANNUAL REPORT

38. The annual report consists of chapters for each agency or department. The chapters for departments contain all agencies or funds which are the responsibility of the department. The chapters are arranged in alphabetical order. All observations for each agency or department are contained in the individual chapter, except the matters reported in the chapters *Accountability Process, Corporation Accountability, The Government Organization Act* and *The Tabling of Documents Act*. These matters cross government department and agency lines of authority and are, therefore, reported centrally.

39. This method of reporting was felt to be most appropriate for the Members of the Standing Committee on Public Accounts. This Committee is charged with the responsibility of considering the annual report and making recommendations to the Assembly.

40. The Committee calls agencies and departments to give testimony to the Committee.

41. The organization of this annual report should facilitate this process by ensuring all observations for each agency and department are contained in one chapter.

Wendel

Regina, Saskatchewan
March 9, 1990

G. F. Wendel, C.A.,
Acting Provincial Auditor

1

ACCOUNTABILITY PROCESS

1.00 Our system of government is modelled after the British Parliamentary System and is based on the principle of rule of law.

1.01 The Legislative Assembly of Saskatchewan (Assembly) has the pre-eminent position in this system because it enacts the laws by which we are governed.

1.02 The Executive government is subordinate to the Assembly because it operates under and is constrained by laws passed by the Assembly.

1.03 A basic principle of our parliamentary system of government is that the Executive government shall not collect revenue, make expenditures or incur debt without the permission of the Assembly.

1.04 The Executive government is accountable for its exercise of power both through the courts and directly to the Assembly. Accountability means to give reasons for and explanations of one's actions.

1.05 A large part of the Executive government's accountability to the Assembly is fulfilled by the provision of financial information contained in the Public Accounts and annual reports of Crown agencies, and other information provided to the Assembly.

1.06 The extent of the Executive government's accountability to the Assembly depends upon the quantity and quality of the information provided to the Assembly. Quality of information decreases as time elapses.

1.07 Another important aspect of the Executive government's accountability to the Assembly is the existence of an independent legislative auditor, the Provincial Auditor.

1.08 The Provincial Auditor is an Officer of the Assembly responsible to audit all the accounts of the Executive government and report to the Assembly on the Executive government's stewardship reports (financial information) and the Executive government's quality of administration of public money.

1.09 Safeguards have been provided by the Legislature through The Provincial Auditor Act to ensure the Provincial Auditor's independence from the Executive government.

1.10 The Provincial Auditor must however seek funding for his Office from the Executive government. This method of funding could affect the Provincial Auditor's ability to fulfill his responsibilities in a timely manner.

1.11 Accountability could be strengthened if funding for the Office of the Provincial Auditor were set by a Committee of the Assembly.

2

CORPORATION ACCOUNTABILITY

2.00 A substantial amount of public money is administered through corporate entities.

2.01 These corporations are created under:

- A special Act of the Legislature, e.g. Saskatchewan Power Corporation, Saskatchewan Telecommunications.
- An Order-in-Council under The Crown Corporations Act, 1978, e.g. Saskatchewan Forest Products Corporation, Souris Basin Development Authority.
- A Business Corporations Act.

2.02 Examples of corporations created under a Business Corporations Act fall into three categories:

- 100% of the issued share capital of the corporation is owned by the Crown, e.g. CIC Industrial Interests Inc., SaskEnergy.
- 50 - 99% of the issued share capital is owned by the Crown, e.g. CAMECO, Westbridge Computer Corporation.
- Less than 50% of the issued share capital is owned by the Crown, e.g. IPSCO Inc., SaskOil (voting interest).

2.03 Corporations created under a special Act of the Legislature and by an Order-in-Council under The Crown Corporations Act, 1978 are required by law to report to the Assembly on their stewardship of public money by tabling an annual report in the Assembly.

2.04 Corporations created under a Business Corporations Act which are partially or wholly owned by the Crown are not required by law to report to the Assembly on their stewardship of public money by tabling an annual report in the Assembly.

2.05 The Standing Committee on Public Accounts discussed this matter as it pertained to corporations whose shares are 100% owned by the Crown. In its report of November 3, 1987, the Committee recommended:

> *"That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown Agencies established pursuant to The Business Corporations Act are tabled in*

the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."

2.06 At the date of this report, legislation has not been enacted.

2.07 This matter is worthy of further study by the Standing Committee on Public Accounts to determine the accountability to the Legislative Assembly of corporations created under a Business Corporations Act where less than 100% of the issued share capital is owned by the Crown.

3

THE TABLING OF DOCUMENTS ACT

3.00 The Tabling of Documents Act governs the timing of the preparation and submission of most annual reports of government organizations. One objective of the Act is to provide annual reports to Members early in any session of the Legislature.

3.01 The Act requires the annual report for a government organization to be forwarded to the proper official for tabling in the Assembly within ninety days of its fiscal year end. The Act also requires the official who receives the annual report to table that report in the Assembly. The official must table the annual report within fifteen days after the commencement of a session of the Legislature or within fifteen days after receiving the report, whichever is the later.

3.02 The fifteen day requirement appears to mean fifteen calendar days. However, I have been informed by the Clerk of the Legislative Assembly there is a convention that fifteen days means fifteen sitting days of the Assembly.

3.03 As part of the audit of the various organizations of government, my officials determine whether or not there has been compliance with the Act for those organizations whose annual reports contain financial statements.

3.04 During the audits it was observed that there were instances where annual reports were not tabled within fifteen calendar days or were not prepared within ninety calendar days.

3.05 The list of organizations not complying with the Act are listed in Appendix IV. The list does not include those organizations that did not table within the fifteen calendar days but did table within the established convention of fifteen sitting days. It also does not include those organizations that did not prepare and submit their annual report within ninety calendar days of their fiscal year end provided the report was tabled in the Assembly within the fifteen day convention, as the overall objective of the Act was achieved.

3.06 If the established convention is to continue, I suggest the Act be changed to recognize the practice.

4

THE GOVERNMENT ORGANIZATION ACT

4.00 The Government Organization Act contains provisions regarding government departments. One of these provisions relates to the controls that the executive branch is to exercise when making expenditures.

4.01 Subsection 17(2) of The Government Organization Act states:

> *"The Minister shall obtain the approval of the Lieutenant Governor in Council before entering into an agreement under subsection (1), other than an agreement for the purposes of sections 15 and 16, whereby the Government of Saskatchewan is liable to make expenditures in excess of $10,000 in any fiscal year."*

4.02 Sections 15 and 16 permit the Minister to engage the services of advisors, specialists and consultants and appoint advisory committees.

4.03 During the audits of the departments of government it was observed that departments were not obtaining the approval of the Lieutenant Governor in Council for agreements with the Saskatchewan Property Management Corporation (SPMC) that required expenditures in excess of $10,000 in any fiscal year.

4.04 This matter has been discussed with the Department of Finance. The Department advised there are other sufficient controls exercised by the executive branch of government when making expenditures which precludes the need, from an administrative view, to obtain Orders-in-Council for agreements with SPMC. The Department also advised that their legal counsel was of the opinion that Orders-in-Council are not necessary for agreements with SPMC.

4.05 It is the view of my legal counsel that an Order-in-Council under Section 17(2) (involving an expenditure in excess of $10,000) is required even if the agreement is with SPMC. If this is not the intent of the Legislature, I suggest that Section 17(2) be amended to clarify the law.

5

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

YEAR ENDED MARCH 31, 1988

5.00 The Corporation makes loans for agricultural purposes.

5.01 The Corporation's established accounting procedures require the loan subsidiary records to be balanced on a timely basis to the amounts recorded in the general ledger control accounts. The Corporation's procedures also require these reconciliations to be reviewed and approved by supervisory staff to ensure the reconciliations have been performed as prescribed.

5.02 These procedures are important to ensure errors in the accounting records are detected on a timely basis and to ensure the Corporation can prepare accurate financial statements in accordance with an appropriate basis of accounting.

5.03 During the audit it was observed that the loan subsidiary records were not balanced on a timely basis to the amounts recorded in the general ledger control accounts.

6

BOARD OF INTERNAL ECONOMY

6.01 During the audit it was noted that payments in respect of Members' expenses were not certified by the Speaker.

6.02 Section 65(1)(c) of The Legislative Assembly and Executive Council Act states:

> *"....the sum due to a member at the close of the session with respect to amounts payable pursuant to section 42 and those provisions of section 50 that the Board of Internal Economy may authorize shall be calculated and paid to him by the Minister of Finance on the receipt by that minister of a solemn declaration made by the member, which declaration shall show...the amount of his expenses as determined and certified by the Speaker."*

6.03 As Members' expenses have not been certified by the Speaker, these payments were not properly authorized in accordance with Section 65(1)(c) of The Legislative Assembly and Executive Council Act.

6.04 I have been advised by the Clerk of the Legislative Assembly that new legislation for the Board is being considered which will not require the Speaker to certify attendance.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Table of Contents

	Paragraph
Year Ended December 31, 1987	7.00
Payments Without Authority	7.03
Difference of Opinion	7.18
Year Ended December 31, 1988	7.21

7

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

YEAR ENDED DECEMBER 31, 1987

7.00 The Provincial Auditor reported in his 1988 annual report that he was unable to rely on the report of the appointed auditor for the following reasons:

- the appointed auditor had not reported on $2.7 million of payments that were in part, in the Provincial Auditor's opinion, beyond the powers of the Crown Investments Corporation of Saskatchewan (C.I.C.);
- the appointed auditor had, in the Provincial Auditor's opinion, issued an inappropriate opinion on the consolidated financial statements of C.I.C.; and
- there was a difference of opinion between two appointed auditors as to whether or not it was correct to record $63 million of income in the 1987 financial statements for C.I.C. and for its subsidiary Meadow Lake Sawmill Ltd.

7.01 The Provincial Auditor also reported he had not conducted additional audit procedures at C.I.C. at that time to determine:

- the portion of the $2.7 million that was beyond C.I.C.'s powers;
- if there were any more payments made by C.I.C. that were beyond its powers; and
- the correctness of recording $63 million of income in the 1987 financial statements of C.I.C. and its subsidiary Meadow Lake Sawmill Ltd.

7.02 The audit procedures are now completed. The results of the audit procedures are as follows.

Payments Without Authority

7.03 The audit scope section of this annual report explains that additional audit work is conducted where initial audit work indicates there is greater than a relatively low risk that payments without authority may be made. This additional work is done to determine the extent of payments without authority. Where initial audit work indicates that control procedures are satisfactory to ensure that payments are being made with authority, this additional audit work is not conducted.

7.04 The Provincial Auditor stated in his 1988 annual report the appointed auditor formed a different opinion than the Provincial Auditor because the appointed auditor relied on the advice of C.I.C.'s lawyer. C.I.C.'s lawyer was of the opinion that C.I.C. had authority to make the $2.7 million in payments. Therefore, based upon initial audit work, it did not appear to the appointed auditor that payments were being made without authority. Accordingly, the appointed auditor was not required to carry out additional work to determine the extent of payments without authority and did not do so.

7.05 The additional audit work was carried out by officials of my office. The results are as follows.

7.06 As reported last year, the corporation entered into a contract with a consultant to evaluate and review the overall effectiveness and efficiency of all government departments and to report thereon.

7.07 Payments of $2.7 million were made under the contract.

7.08 C.I.C. does not have authority to enter into contracts and make payments for services to government agencies that are not subject to Part II of The Crown Corporations Act, 1978.

7.09 The audit determined $5,000 of the payments were within the powers of the corporation because they related to government organizations subject to Part II of The Crown Corporations Act, 1978. In my opinion, the remaining amount of the payments were made without authority.

7.10 The audit also revealed two other payments for professional and technical services that were without adequate authority. These items were not selected as part of a statistical sample examined by the appointed auditor because of the nature of the sampling process. In addition, the additional audit work performed by officials of my office was designed to significantly expand the sample of items examined.

7.11 It was noted that $132,000 was paid to a consulting firm for services provided to the Agent General of Saskatchewan located in London, England. These services were outlined in a letter from the consultant to the Agent General dated March 4, 1987. This letter provided in part:

> *"...to assist the Province of Saskatchewan in actively promoting investment opportunities over a wide range of sectors in the province..."*

7.12 The letter goes on to state that the most fruitful relationship would be frequent, informal and ad hoc collaboration where the consultant would discuss with the Agent General current projects and their priority as endorsed by the Saskatchewan Government and its agencies.

7.13 These services fall within the purpose of the Office of the Agent General as set out in Section 5(a) of Order in Council #609/86 which states in part:

> *"(ii) The promotion of the establishment of branch factories or other industries of British and European origin in the Province of Saskatchewan;*
>
> *(iii) The representation of the general interest of the Province of Saskatchewan abroad."*

7.14 This Order in Council in Section 5(c) also sets conditions for the Agent General in the exercising of his duties and states in part:

> *"(iii) The Agent General shall not expend or commit the expenditure of monies of the Government of Saskatchewan beyond the sums appropriated by the Legislature and allotted and placed at his disposal from time to time by the Department to which he is attached...."*

7.15 The Agent General is not subject to Part II of The Crown Corporations Act, 1978 and, therefore, in my opinion, the payment to the consultant of $132,000 does not have adequate statutory authority.

7.16 C.I.C. contracted with a research company to complete a post budget telephone survey of 600 Saskatchewan residents for a cost of $42,000.

7.17 Section 24 of The Crown Corporations Act, 1978, which sets the powers of C.I.C., does not delegate to the corporation any responsibility for the Province of Saskatchewan Estimates (budget). Therefore, in my opinion, the payment does not have adequate statutory authority.

Difference of Opinion

7.18 The audit of the documentation regarding the $63 million recorded as income and referred to in Note 3 to the 1987 consolidated financial statements of C.I.C. is now complete.

7.19 It is a matter of professional opinion as to whether or not it is appropriate to accrue the $63 million in income. The appointed auditor for C.I.C. was of the opinion it was appropriate. However, the appointed auditor of the subsidiary company, Meadow Lake Sawmill Ltd., was of the opinion it was not appropriate to accrue the $63 million in the income of the subsidiary. Both auditors had done sufficient audit work to form their opinions.

7.20 Subsequent events confirmed that $53 million in cash was received in 1988. Because of the uncertainty as to the timing of the receipt of interest, I would have preferred that income earned on the debenture in 1987 be recorded in the year cash was received (1988) rather than on the accrual basis (1987).

YEAR ENDED DECEMBER 31, 1988

7.21 The Provincial Auditor reported in his 1988 annual report that he had a difference of opinion with the appointed auditor on the consolidated financial statements of C.I.C for the year ended December 31, 1987.

7.22 The Provincial Auditor reported that he was of the opinion that generally accepted accounting principles (GAAP) preclude from consolidation the financial results of companies which are not owned through share capital.

7.23 The appointed auditor was of the opinion that GAAP did not preclude from consolidation companies which are not owned through share capital.

7.24 This difference of opinion continues since there have been no recent developments that would indicate it is now acceptable under GAAP to consolidate the financial results of companies which are not owned through share capital.

DEPARTMENT OF AGRICULTURE

Table of Contents

	Paragraph
Canada-Saskatchewan Greenfeed Drought Assistance Program	8.00
Canada-Saskatchewan Livestock Drought Assistance Program	8.07
Conservation and Development Revolving Fund	8.12
Farmers' Oil Royalty Refund Program	8.18
Horned Cattle Fund	8.24
Advances	8.26
Cattle Inventory	8.30
General Ledger	8.35
Saskatchewan Horse Racing Commission	8.39
Saskatchewan Sheep and Wool Marketing Commission	8.43
Check Off Fees	8.45
Producer Registration	8.48
Interprovincial or Export Trade Levies	8.51
Accounting Records	8.54

8

DEPARTMENT OF AGRICULTURE

CANADA-SASKATCHEWAN GREENFEED DROUGHT ASSISTANCE PROGRAM

8.00 The purpose of the program is to provide financial incentives to encourage production of livestock feed supplies for areas significantly affected by drought.

8.01 Under the Canada-Saskatchewan Greenfeed Drought Assistance Agreement (the Agreement), the Government of the Province of Saskatchewan (Saskatchewan) is responsible for implementing the program.

8.02 The agreement requires Saskatchewan to make payments to eligible producers and recover from the Government of Canada (Canada) 50% of the amounts paid.

8.03 During the year ended March 31, 1989, some $20,000,000 was paid to producers and $10,000,000 was recovered from Canada.

8.04 The Department and Saskatchewan Crop Insurance Corporation (SCIC) signed an agreement whereby SCIC agreed to administer the agreement and make payments to eligible producers on behalf of the Department. The procedures, financial controls, systems and documentation requirements to be used by SCIC were detailed in appendices to the SCIC Agreement.

8.05 The Department authorized the expenditures to be charged to its vote by reimbursement of SCIC based on cheque listings provided by SCIC.

8.06 During the audit it was observed that the Department had not developed a system to ensure that eligibility criteria were properly evaluated by SCIC and that payments to producers were made in accordance with the agreed procedures, financial controls, systems and documentation requirements detailed in appendicies to the SCIC Agreement.

CANADA-SASKATCHEWAN LIVESTOCK DROUGHT ASSISTANCE PROGRAM

8.07 Payments under this Program are made to livestock producers in drought-affected areas of Saskatchewan to assist them in maintaining a viable livestock herd.

8.08 The Canada-Saskatchewan Livestock Drought Assistance Agreement (the Agreement) requires Canada to administer the Agreement and to make payments as specified in the agreement. The Agreement establishes eligibility criteria for payments to livestock producers and makes provision for the audit of records of payments.

8.09 Upon receipt of a certified statement of payments made by Canada, Saskatchewan is required to pay Canada 50% of the amounts paid.

8.10 During the year ended March 31, 1989, approximately $14,000,000 was paid by the Department to Canada.

8.11 However, the Department had not developed a system to ensure that eligibility criteria were properly evaluated and that payments to producers were made in accordance with the provisions of the Agreement.

CONSERVATION AND DEVELOPMENT REVOLVING FUND

8.12 Officials of the Department administer the Conservation and Development Revolving Fund.

8.13 The Revolving Fund is used to finance services related to conservation and development.

8.14 It is management's responsibility to ensure budgets are in place and timely financial information is provided to control operations of the Revolving Fund.

8.15 Section 1010 of the Financial Administration Manual (FAM) requires officials to submit annual budgets for Revolving Funds to Treasury Board for approval. It also requires officials to submit quarterly financial statements for Revolving Funds to Treasury Board within thirty days after the close of the quarter.

8.16 For the 1988/89 fiscal year, no budget was prepared for the Conservation and Development Revolving Fund. Quarterly financial statements were not prepared for the quarter ending June 30, 1988. Quarterly financial statements for the remaining quarters in the 1988/89 fiscal year were completed three months after the close of each respective quarter.

8.17 It is my opinion that management controls over the operations of the Revolving Fund could be improved. Further, officials have not complied with Section 1010 of the FAM.

FARMERS' OIL ROYALTY REFUND PROGRAM

8.18 The appropriation for the payment of refunds to farmers under The Farmer's Oil Royalty Refund Act is provided in the Agricultural Division of the Saskatchewan Heritage Fund.

8.19 The Heritage Fund (Saskatchewan) Act authorizes the Minister of Agriculture to pay these refunds. Accordingly, the Department of Agriculture is responsible for the administration of this public money.

8.20 The Department has entered into an arrangement with the Department of Finance (Finance) whereby Finance receives and assesses applications for refunds, makes payments to farmers based on that assessment and sends a payee listing to the

Department. The Department authorizes the expenditure to be charged to its vote by reimbursement of Finance based on its review of this payee listing.

8.21 During the audit, it was observed that the Department has not documented its rules and procedures to determine whether the system established by Finance to make payments on its behalf is adequate.

8.22 As a result, I am unable to determine if the rules and procedures applied by the Department were sufficient to ensure that expenditures for this program are lawful, proper and accurate.

8.23 This matter was reported in the 1988 annual report.

HORNED CATTLE FUND

8.24 The Department administers the Horned Cattle Fund.

8.25 The audit of the Fund revealed the following deficiencies in the rules and procedures to safeguard and control public money.

Advances

8.26 In 1987/88, $30,000 was advanced to an association to finance the purchase of cattle for a beef forage research project. The agreement between the parties specified the return of the advance to The Horned Cattle Fund upon sale of the cattle. Although the cattle were sold, the funds were not returned. The proceeds of the sale were used by the association to buy more cattle.

8.27 In 1988/89 a further $21,950 was advanced to the association for the purchase of more cattle.

8.28 The agreement expired on March 31, 1989 and the association did not repay the advances as provided by the agreement.

8.29 Also, there is no additional agreement with the association beyond March 31, 1989 to evidence The Horned Cattle Fund's claim to the advances or the cattle purchased with the funds advanced.

Cattle Inventory

8.30 The Department has no system to determine the inventory of cattle which should exist at The Melfort Research Station (Station), an Agriculture Canada facility.

8.31 The inventory records are important as they constitute the record of the Station's accountability for animals entrusted to it.

8.32 Station employees keep perpetual inventory records showing calves born, cattle purchased and sold and the number of cattle on hand. This information, together with purchase and sales invoices, is sent to the Department.

8.33 There is, however, no comparison of the purchases and sales of animals shown on the inventory records with the purchase and sales invoices.

8.34 The Department, therefore, does not ensure that the inventory records include all cattle.

General Ledger

8.35 An important element in any system of internal control is careful supervision by management. One aspect of supervision involves reviewing the performance of employees to ensure they have properly carried out their assigned duties.

8.36 When the financial statements were presented for audit, the general ledger did not agree with the financial statements. This was because several 1988 year end adjusting entries were not recorded.

8.37 Since these errors were not detected by management, in my opinion, management did not have an adequate system to ensure the accuracy of the general ledger.

8.38 The general ledger has since been adjusted to agree with the financial statements.

SASKATCHEWAN HORSE RACING COMMISSION

8.39 During the audit the following management control deficiency was noted.

8.40 The terms of all Commission members appointed by Order-in-Council 1793/83 expired December 14, 1988. Consequently there were no active Commission members from then to March 9, 1989 when Commission members were appointed by Order-in-Council 181/89.

8.41 In common with many small organizations, the Commission's accounting routines are performed by a limited number of persons. In order to achieve an appropriate degree of control over the assets of the Commission, members of the Commission are required to exercise control over management.

8.42 Since there were no Commission members for the above period, it is my opinion controls were not sufficient to safeguard and control the assets of the Commission for that period.

SASKATCHEWAN SHEEP AND WOOL MARKETING COMMISSION

8.43 The Commission operates under The Natural Products Marketing Act, 1978.

8.44 The audit revealed that the Commission's systems were not adequate to ensure compliance with all marketing orders. The following deficiencies were noted.

Check Off Fees

8.45 Marketing Order No. 3/87 requires the Commission to collect check-off fees on all Saskatchewan sheep and wool marketed through livestock dealers, processors, sheep associations, and wool dealers or through the Commission.

8.46 The Commission does not have a system to ensure these fees are collected for Saskatchewan sheep and wool marketed outside of the Commission. It also does not have a system to ensure that where check-off fees are collected outside of the Commission, they are sent to the Commission.

8.47 This matter was reported in the 1988 annual report.

Producer Registration

8.48 Marketing Order No. 2/78 states that a producer shall not sell sheep without having completed an application for registration. It further requires the Commission to maintain a system of producer registration and to register all producers upon the receipt of a valid application form.

8.49 The Commission does not have a system in place to ensure all producers who sell sheep in the province register with the Commission.

8.50 This matter was reported in the 1988 annual report.

Interprovincial or Export Trade Levies

8.51 The Saskatchewan Sheep and Wool Levies Order imposes a levy on sheep and wool sold outside Saskatchewan. The levy is to be paid to the Commission.

8.52 The Commission does not have a system in place to ensure all producers who sell outside Saskatchewan remit trade levies to the Commission.

8.53 This matter was reported in the 1988 annual report.

Accounting Records

8.54 To ensure the reliability of the financial statements, management must have controls in place to ensure its transactions are accurately and completely recorded in its accounting records.

8.55 Due to limitations in staff size, the Commission is unable to achieve complete segregation of duties. To compensate for the inadequate segregation of duties, Commission members perform the following management duties: authorization of major purchases, signing of cheques, and approval of selling prices for supplies.

8.56 Also, various financial documents and information are submitted to the Commission on a periodic basis for their review and approval. This includes monthly financial information prepared by the Commission staff.

8.57 During the audit, significant errors were noted in the accounting records and monthly financial statements.

8.58 In my opinion, the review of the monthly financial information by management and the Commission was not adequate to detect significant errors in the accounting records and monthly financial statements.

9

DEPARTMENT OF CONSUMER AND COMMERCIAL AFFAIRS

Postage

9.00 The Department's rules and procedures were deficient to ensure expenditures for postage were for services rendered to the Department.

9.01 Saskatchewan Property Management Corporation (SPMC) bills the Department for postage.

9.02 The Department does not, however, keep records of the quantity of mail processed. Also, the invoice from SPMC does not provide information about the volume of mail processed and the rates charged for mail service. Therefore, the Department cannot properly assess the validity and accuracy of the postage invoices.

9.03 In my opinion, postage payments to SPMC totalling $212,498 were not properly vouchered or certified.

9.04 I am advised that the Comptroller has agreed to study this issue on a department wide basis.

Agricultural Implements Board

9.05 Officials of the Department of Consumer and Commercial Affairs administer The Agricultural Implements Act.

9.06 Section 52 of the Act states:

> *"Sums required for the purposes of this Act may be paid from moneys appropriated by the Legislature for such purposes."*

9.07 A separate appropriation for the costs of administering the Act has not been set out in the Estimates.

9.08 For the year ended March 31, 1989, $35,000 was spent to administer the Act. These costs were charged to the appropriation for the Department called Licensing and Investigation.

9.09 In my opinion, the Licensing and Investigation appropriation was applied in a manner not authorized by the Legislative Assembly.

9.10 This matter was reported in the 1988 annual report.

9.11 The 1988 annual report indicated that the Minister in charge of the Department advised the Provincial Auditor:

- from an administration point of view the Department does not support a separate appropriation;
- the Department recognized the law required a separate appropriation;
- the Department's request for a separate appropriation in the Estimates was denied by Treasury Board; and
- when other changes to the Act are required, the Department intends to introduce changes to the Act to correct the problem.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

Table of Contents

	Paragraph
Postage	10.01
Cash Receipts	10.06
Payment Without Authority	10.10

10

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

10.00 During the audit it was noted that the Department's rules and procedures were deficient to safeguard and control public money.

Postage

10.01 The Department's rules and procedures were deficient to ensure expenditures for postage were for services rendered to the Department.

10.02 Saskatchewan Property Management Corporation (SPMC) bills the Department for postage.

10.03 The Department does not, however, keep records of the quantity of mail processed. Also, the invoice from SPMC does not provide information about the volume of mail processed and the rates charged for mail service. Therefore, the Department cannot properly assess the validity and accuracy of the postage invoices.

10.04 In my opinion, postage payments to SPMC totalling $865,779 were not properly vouchered or certified.

10.05 I am advised that the Comptroller has agreed to study this issue on a Department wide basis.

Cash Receipts

10.06 Section 510 of the Financial Administration Manual (FAM), issued by the Comptroller's Office, provides guidance for Departments on mail handling procedures.

10.07 It stipulates that all incoming mail is to be opened by two persons designated for that purpose and all negotiable instruments received through the mail are to be restrictively endorsed immediately upon receipt.

10.08 During the examination it was observed that the mail was not always opened by two people. It was also observed that negotiable instruments received through the mail were not restrictively endorsed immediately upon receipt.

10.09 Therefore, the Department's system for cash receipts is deficient and is not in compliance with Section 510 of the FAM.

Payment Without Authority

10.10 On March 23, 1989, the Department obtained an Order-in-Council (231/89) approving the payment of a $3.3 million grant under Section 18 of The Government Organization Act and Section 9 of The Economic Development and Tourism Act to a company (Grantee).

10.11 The $3.3 million was, however, not paid to the Grantee. Rather, it was paid to the Saskatchewan Economic Development Corporation (SEDCO) under the terms of an agreement, dated March 30, 1989, between the Minister of Economic Development and Tourism, the Grantee and SEDCO .

10.12 This agreement stipulated the grant was "to be held by SEDCO subject to such terms and conditions as the Minister may impose until such time as the Grantee becomes entitled to the grant pursuant to this agreement".

10.13 It further stated "No amount shall be paid to the Grantee, after May 31, 1991 and, on that date, SEDCO shall refund to the Minister the amount by which $3.3 million exceeds the amount of the grant paid to the Grantee pursuant to this Agreement".

10.14 In my opinion, the Department did not make a grant when the $3.3 million was paid to SEDCO. The money remained under the control of the Crown and was not payable to the Grantee until certain conditions were met.

10.15 Therefore, in my opinion, the $3.3 million payment to SEDCO was without legislative authority.

10.16 Also, the agreement between the Minister, the Grantee and SEDCO has the effect of rendering the appropriation control contained in Section 36(1) of The Financial Administration Act ineffective. Section 36(1) states:

> *"The balance of an appropriation that has been granted for a fiscal year and that remains unexpended at the end of that fiscal year lapses".*

10.17 My legal counsel was of the opinion that the Order-in-Council approving the grant was ultra vires and the $3.3 million lapsed at the end of the fiscal year.

10.18 Management has provided my staff with a copy of a legal opinion that supports their view that the payment had adequate authority.

10.19 My legal counsel has reviewed this legal opinion and continues to hold the opinion described in paragraph 10.16.

DEPARTMENT OF EDUCATION

Table of Contents

	Paragraph
School Operating Grants	11.01
Book Bureau Revolving Fund	11.04
Saskatchewan Indian Regional College	11.09
Supervisory Controls	11.10
Non-Compliance With Authorities	11.13
Saskatchewan Institute of Applied Science and Technology	11.20
Contract Revenue	11.20
Journal Entries	11.24
Computer Processing	11.26
Segregation of Duties	11.29
Saskatchewan Student Aid Fund	11.32
Segregation of Duties	11.33
Verification of Student Loan and Bursary Applications	11.43
Verification of Canada Student Loans Negotiated	11.49
Disaster Recovery	11.53
File Changes	11.57
Journal Entries	11.62
Expenditure Control	11.65
Non-Compliance With Authorities	11.67

11

DEPARTMENT OF EDUCATION

11.00 The audit of the Department disclosed the following cases where expenditures were made without authority and without being properly vouchered or certified.

SCHOOL OPERATING GRANTS

11.01 The Education Regulations, 1986, issued under authority of The Education Act, specify how school operating grant payment amounts are to be determined.

11.02 However, the Department made payments based on rates that, for the 1987/88 school year, did not come into effect until August, 1988 and, for the 1988/89 school year, had not been brought into force at February 1, 1990.

11.03 Accordingly, these expenditures were made without authority and without being properly vouchered or certified.

BOOK BUREAU REVOLVING FUND

11.04 During the audit it was noted there was an inadequate segregation of duties over cash receipts.

11.05 Segregation of duties is inadequate when one employee can conceal errors or fraud.

11.06 One employee was responsible for the following duties.

- Preparing the bank deposit form from the cash mail record (CMR).
- Preparing cash receipts forms for entry into the Department of Finance Revenue and Expenditure system (RES). The same employee was also responsible for following up long outstanding accounts receivable and had access to the accounts receivable master file and the general ledger master file.
- Reconciling CMR to monthly RES reports and the accounts receivable transaction listing.

11.07 This weakness could result in cash being received but not deposited, without ready detection.

11.08 I have been advised by management that action has been taken to correct this weakness.

SASKATCHEWAN INDIAN REGIONAL COLLEGE

11.09 The audit of the College revealed that the rules and procedures to safeguard and control public money were deficient and there were instances where the College did not comply with the applicable legislative and related authorities.

Supervisory Controls

11.10 An important element in a system of internal control is careful supervision by management. One aspect is the careful supervision of staff to ensure prescribed accounting procedures are completed on a timely basis.

11.11 During the audit it was observed that a bank account was not compared to the amount recorded in the general ledger on a timely basis.

11.12 This weakness allows the possibility that material errors or fraud may not be detected on a timely basis.

Non-Compliance With Authorities

11.13 The College has not complied with the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities.

11.14 The College was subject to The Community Colleges Act from July 1, 1987 to November 6, 1987. When the Community College Act was repealed, the College became subject to The Regional Colleges Act (Act).

11.15 The following instances of non-compliance with the Act were noted.

11.16 The Act requires the members of the Board to be appointed by the Lieutenant Governor in Council. It was observed that three members of the Board were not appointed by the Lieutenant Governor in Council.

11.17 The Act requires the College's budgets to be approved by the Minister of Education prior to adoption by the Board. It was observed that budgets were not approved by the Minister prior to adoption.

11.18 The Act requires the purchase of term deposits to be approved by the Minister of Education. It was observed that the purchase of term deposits were not approved by the Minister.

11.19 The Act requires all cheques to be signed by the Treasurer and one other signing officer. It was observed that not all cheques were signed by the Treasurer and one other signing officer.

SASKATCHEWAN INSTITUTE OF APPLIED SCIENCE AND TECHNOLOGY

Contract Revenue

11.20 The Institute enters into contracts to provide programs. The revenue from these contracts is directly related to the costs incurred for each contract.

11.21 Essential to an adequate system of management controls are rules and procedures to ensure all costs for contracts are recorded.

11.22 Management of the Institute did not comply with their established procedures to ensure the recording of all costs for each contract. Also, management did not follow their system of monitoring the contracts to ensure all costs were being recorded.

11.23 As a result, costs may be incurred on contracts and not subsequently recovered by the Institute.

Journal Entries

11.24 To ensure the general ledger is accurate, miscellaneous adjustments to the general ledger (journal entries) must have adequate supporting documents and proper approvals.

11.25 It was noted that not all journal entries had supporting documents or approvals.

Computer Processing

11.26 It is important that organizations have the ability to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or destroyed, whether they are manual or computerized records.

11.27 There was no documented and tested plan in place to recover or reconstruct critical computerized records in the event of loss or destruction.

11.28 Also, it was noted that although there were adequate copies of data and program files, these copies were not stored at an appropriate location away from the computer processing facility.

Segregation of Duties

11.29 With computerized systems, physical segregation of duties is often lost. Instead, this segregation of functions is often achieved through restrictions on the ability to access data or programs residing on the computer. Therefore, control over computer access is significant.

11.30 It was noted that 32 people had access to the computer. Their access bypassed the normal authorizations and system controls. This could result in unauthorized changes to data.

11.31 Management has indicated that this weakness has been corrected.

SASKATCHEWAN STUDENT AID FUND

11.32 The Fund is administered by the Trustees of the Saskatchewan Student Aid Fund.

Segregation of Duties

11.33 Segregation of duties is inadequate when one employee can conceal errors or fraud.

11.34 Because of the concentration of duties in computer systems, access to the computer must be restricted to obtain segregation of duties.

11.35 During the audit, it was noted that there was inadequate segregation of duties over loan disbursements.

11.36 Personnel in the Student Financial Assistance Branch (Branch) of the Department of Education had unrestricted access to the Student Application and Payment Processing Computer System. In addition, common identification codes were used by several personnel.

11.37 As a result of these weaknesses, it was possible for employees to record a fictitious student loan or bursary application, mark it as being "verified", and mark it to indicate enrolment in an advanced educational institution was confirmed. These procedures would result in the loan being approved for payment and an electronic funds transfer being made to an unauthorized bank account.

11.38 The possibility also exists of unauthorized changes being made to valid application data and loan applications being inappropriately authorized.

11.39 Also the Branch uses micro-computers for calculating interest writedowns, determining students' minimum loan repayments and loans payable remissions and entering loan repayments into the main-frame computer. A micro-computer is also used to operate the general ledger system.

11.40 There were inadequate restrictions on the access to the micro-computers.

11.41 This weakness allows the possibility of unauthorized changes being made to the students' loan records and not being detected on a timely basis.

11.42 These matters were reported in the 1988 annual report.

Verification of Student Loan and Bursary Applications

11.43 During the audit it was noted there was insufficient pre-payment and post-payment verification of critical information on student loan and bursary applications. As a result, unauthorized loan payments were made.

11.44 During the year, management of the Branch expanded pre-payment screening procedures. These procedures included:

- checking with Saskatchewan Government Insurance to validate vehicle asset information;
- checking with the Department of Health for Saskatchewan residency and accuracy of information on marital status and dependents;
- checking to Department of Education files to verify the applicant's high school graduation date; and
- requiring parents' income tax forms to be submitted at the time of application.

11.45 The Branch's staff compared the information included in loan applications to that received from these other sources. However, where differences were noted, the differences were not followed up on a consistent basis.

11.46 The Branch conducted a post audit on a sample of 100 Saskatchewan Special Incentive Student Loans. Overpayments of $232,390 were discovered. Because the sample was not determined on a statistical basis, it was not possible to determine the likely amount of overpayments which would be included in the entire student loan population.

11.47 For the overpayments discovered, the Branch followed its standard procedures to ensure that grants are not awarded to these students and to ensure that future loans to these students are reduced by the amount of the overpayments.

11.48 This matter was reported in the 1988 annual report.

Verification of Canada Student Loans Negotiated

11.49 During the audit it was observed there was insufficient verification of Canada Student Loans negotiated by students.

11.50 The interest writedown program applies to the amount of an applicant's negotiated Canada Student Loan.

11.51 The Branch's procedures were limited, however, to reviewing Canada Student Loan applications for completeness and having students sign a declaration indicating they had negotiated the full amount of their Canada Student Loan prior to receiving any Provincial student assistance.

11.52 As a result, students may receive interest writedown grants from the Branch based on the amount of the Canada Student Loan applied for as opposed to the amount actually negotiated.

Disaster Recovery

11.53 It is important that organizations have the ability to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or destroyed, whether they are manual or computerized records.

11.54 There was no documented and tested plan in place to recover or reconstruct critical computerized records in the event of loss or destruction.

11.55 Also, it was noted that although there were adequate copies of data and program files, these copies were not stored at an appropriate location away from the computer processing facility.

11.56 This matter was reported in the 1988 annual report.

File Changes

11.57 The Trustees keep computer files called the Criteria Master File and the Student Master File. The information recorded in these files is used to ensure only correct payments are made.

11.58 During the audit it was observed there was no evidence employees checked the accuracy of information recorded in the Criteria Master File and the Student Master File.

11.59 The absence of evidence that information was checked provides no assurance to supervisory staff that assigned tasks were completed.

11.60 This weakness allows the possibility of incorrect transactions not being detected on a timely basis.

11.61 This matter was reported in the 1988 annual report.

Journal Entries

11.62 An important element of internal control is that accounting transactions should be approved by appropriate levels of authority.

11.63 There was no evidence that journal entries were approved by an official of the Branch.

11.64 This weakness allows the possibility of errors occurring in the accounting records and not being detected on a timely basis.

Expenditure Control

11.65 Budgets are an important tool used by management to supervise the performance of an organization and to identify potential problems.

11.66 During the year, it was noted that expenditures for the year were not monitored against the approved budget.

Non-Compliance With Authorities

11.67 Section 11.1(5)(b) of The Student Assistance and Student Aid Fund Amendment Regulations, 1983 states the student shall repay his loan "at a monthly rate equal to the sum of:

> i) an amount equal to the greater of:
>
> (A) $50; or
> (B) an amount equal to the amount of the loan divided by 72; and
>
> ii) interest on the loan calculated pursuant to subsection (6)."

11.68 During the audit it was observed the Branch did not have appropriate procedures to consistently enforce the minimum repayment terms required by The Student Assistance and Student Aid Fund Amendment Regulations, 1983.

DEPARTMENT OF ENVIRONMENT AND PUBLIC SAFETY

Table of Contents

	Paragraph
The Fire Prevention Act, 1980	12.00
The Environmental Protection Fund	12.07
Legislative Compliance	12.08
Authorization Controls	12.12

12

DEPARTMENT OF ENVIRONMENT AND PUBLIC SAFETY

THE FIRE PREVENTION ACT, 1980

12.00 The Fire Prevention Act, 1980 states:

> *"22(1) As a contribution to the cost of the fire prevention services provided for in this Act every company...shall pay to the Minister of Revenue and Financial Services a fee...."*
>
> *"(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations."*

12.01 The cost to administer the Act is paid out of a consolidated fund appropriation.

12.02 Money received under the Act is deposited in the consolidated fund. However, when money received exceeds the cost of administration, the excess is not set aside within the consolidated fund.

12.03 During the year, revenue collected under Section 22 of The Fire Prevention Act, 1980 was approximately $2 million and the cost to administer the Act was approximately $1 million.

12.04 The failure to set aside the excess of receipts over costs resulted in the excess being appropriated for purposes other than those set out in the Act. Therefore, the requirement to dedicate revenue to expenses has not been satisfied.

12.05 I have been advised that a legislative amendment aimed at correcting this problem has received Cabinet approval and will be presented at a forthcoming session of the Legislature.

12.06 This matter was reported in the 1988 annual report.

THE ENVIRONMENTAL PROTECTION FUND

12.07 The Fund is administered by the staff of the Department of Environment and Public Safety.

Legislative Compliance

12.08 Fundamental to good internal control are rules and procedures to ensure all legislative requirements are being fulfilled.

12.09 During the audit it was observed there was no regular review of legislation and related authorities by the Department.

12.10 Because necessary Regulations were not in place, the Department collected revenue and made expenditures from the Fund without authority.

12.11 Subsequent to the year end, Regulations were enacted.

Authorization Controls

12.12 Fundamental to good internal control is a system that ensures all transactions entered into by an organization are authorized, and a system of checking is established to ensure each transaction has been authorized and conforms with the terms of its authority.

12.13 The Department entered into an agreement with a contractor to pay refunds for designated containers returned to collection depots.

12.14 From December, 1988 to October, 1989, the contractor invoiced the Department for non-designated containers. Payments of $165,975 were made to the contractor for the non-designated containers from the Fund.

12.15 The error was subsequently identified and the overpayments were recovered.

12.16 In addition, $25,308 was deposited to the Consolidated Fund instead of the Environmental Protection Fund as a result of a coding error. As a result, this amount was not recorded in the accounts of the Environmental Protection Fund. After management was informed of the error, the error was corrected.

DEPARTMENT OF FINANCE

Table of Contents

	Paragraph
Comptroller	13.00
Revenue	13.01
Payroll	13.08
Non-Compliance With Authorities	13.13
Public Accounts	13.17
Reservation of Opinion	13.17
Summary Financial Statements	13.24
Supplementary Information	13.31
Timeliness of Information	13.34
Public Employees Benefits Agency	13.38
Supervisory Controls	13.39
Investment Income	13.45
Other Matter	13.49
Public Employees Dental Fund, Year Ended December 31, 1987	13.51
Timely financial statements	13.53
Bank transfers	13.56
Dental claims	13.60
Contribution revenue	13.66
Non-compliance with legislation	13.70
Special Warrants	13.74

13

DEPARTMENT OF FINANCE

COMPTROLLER

13.00 The audit of the management control systems used by the Comptroller to discharge his responsibilities disclosed the following deficiencies.

Revenue

13.01 An important element in any system of management controls is careful supervision by management. In larger organizations, no one manager can have a direct personal knowledge of every facet of the organization's activities. Therefore, an important aspect of management supervision is the monitoring of the continuing effectiveness of all other controls in the organization.

13.02 Section 25 of The Revenue and Financial Services Act describes the duties of the Comptroller and provides in part as follows:

> "*(i) the comptroller shall:*
>
> *a) supervise the receipt, recording and proper disposition of public money;*"

13.03 The Comptroller's interpretation of this responsibility is as follows:

> "
> - *establish standards,*
> - *monitor and evaluate, where necessary, provide direction or suggestions for improvement in the process,*
> - *may provide assistance to affect changes as identified,*
>
> *for all receipts of funds that are under the direct supervision of Treasury Board except that discretion can be applied where a proper management structure exists within an entity that will ensure the process is adequate.*"

13.04 During the audit, it was noted that the Comptroller has not documented those rules and procedures established to monitor and evaluate all receipts under the direct supervision of Treasury Board. Consequently, I was unable to determine whether the Comptroller has established systems and procedures sufficient to supervise the receipt, recording and proper disposition of public money.

13.05 For example, the Comptroller's Division, prior to each fiscal year end, issues an accounting bulletin to departments and agencies. This bulletin establishes the cut-off dates for transaction processing and the procedures to be employed in the fiscal year end process to achieve an accurate cut-off for financial reporting. During the audit, it was noted that the Comptroller's Division, with respect to revenue, had not established a system to monitor department and agency compliance with this bulletin.

13.06 This weakness allows the possibility that revenue recording errors may occur without detection on a timely basis.

13.07 This matter was reported in the 1986 and 1987 annual reports.

Payroll

13.08 Also essential to an appropriate system of management controls are rules and procedures that ensure that each transaction is properly authorized.

13.09 During the audit, it was noted payroll payments for monthly paid employees are initially requisitioned by the use of a Saskatchewan Public Service Commission Personnel Action Form (HRS 111) signed by the Permanent Head/Nominee and a Treasury Board Order #1 Authority. Once requisitioned, payroll payments continue to be charged each month to the appropriation until someone intervenes to stop a payment. It was also noted departments and agencies are not provided with the required information to allow reconciliation of the current payroll with the previous payroll and authorized changes.

13.10 This weakness allows the possibility of unauthorized payroll payments being made.

13.11 Further, because of this weakness and since this HRS 111 form is not provided to the Comptroller for his examination (rather the Public Service Commission updates the employee data base computer file which results in payroll payment), it is my opinion that the Comptroller is not in a position to fulfill his statutory duty to control disbursements from the Consolidated Fund in accordance with the provisions of The Financial Administration Act and The Revenue and Financial Services Act.

13.12 The Comptroller's Division has informed me that effective October 1989, controls have been initiated to eliminate this weakness. Expense Distribution Reports listing employees and the amounts to be paid will be approved by Treasury Board approved signing authorities. These reports will be reviewed by staff of the Comptroller's Division.

NON-COMPLIANCE WITH AUTHORITIES

13.13 Section 5 of The Purchasing Act requires that all supplies be purchased through the Director of Purchasing. The definition of supplies as stated in The Purchasing Act is: *"...all goods, wares and merchandise and the services incidental thereto that are "required by a public agency for the transaction of its business..."*.

13.14 Costs incurred by the Department for printing the 1989-90 Budget Address, Estimates and related materials are supplies required by the Department. These supplies were not purchased through the Director of Purchasing.

13.15 In my opinion, the payment for printing the Budget Address, Estimates and related materials required the approval of the Director of Purchasing and the Lieutenant Governor in Council.

13.16 Therefore, this payment was made without adequate authority.

PUBLIC ACCOUNTS

Reservation of Opinion

13.17 My auditor's report on the 1989 Consolidated Fund financial statements contains a reservation of opinion.

13.18 The auditor's report reads in part as follows:

> *"I have examined the statement of financial position of the Consolidated Fund as at March 31, 1989 and the statements of net debt, revenue and expenditure, loan, investment and deposit activity and financing and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.*
>
> *Loans to crown entities include disbursements to the Saskatchewan Property Management Corporation of $385,136,000 (1988 - $340,836,000). It is inappropriate to record these disbursements as assets of the Consolidated Fund since their repayment depends upon future appropriations from the Consolidated Fund. Accordingly, these disbursements should have been recorded as expenditures. If these disbursements had been recognized as expenditures, loans to crown entities would have been reduced by $385,136,000 (1988 - $340,836,000), net debt would have been increased by $385,136,000 (1988 - $340,836,000) and excess of expenditure over revenue would have been increased by $44,300,000 (1988 - $158,843,000).*
>
> *In my opinion, except for the failure to record disbursements as expenditures as described in the preceding paragraph, these financial statements present fairly the financial position of the Consolidated Fund as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year."*

13.19 The auditor's report is advising that the funds required by the Saskatchewan Property Management Corporation (SPMC) to repay the loan to the Consolidated Fund must be paid from the Consolidated Fund to SPMC and, therefore, there is no financial asset.

13.20 The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants (PSAAC) provides guidance on loans that are recoverable only from future appropriations.

13.21 PSAAC indicates that these transactions should be included in expense for the period.

13.22 My auditor's report on the 1989 financial statements which combine the operations of the Consolidated Fund and the Saskatchewan Heritage Fund contains a similar reservation of opinion.

13.23 The auditor's report also provides, as additional information, that the Combined Financial Statements are not summary financial statements as contemplated by the Canadian Institute of Chartered Accountants which would report the financial condition and results of operations of the Government of Saskatchewan in accordance with their economic substance.

Summary Financial Statements

13.24 The Government of Saskatchewan carries out it's mandate through a diverse number of legal and accounting entities, including Crown corporations, boards, agencies, commissions and funds.

13.25 Most of these entities produce separate financial statements. While these separate financial statements are useful in evaluating the individual entity, they do not aid in providing an understandable overview of the entire activities of the Government.

13.26 To fully understand the financial position and economic activities of the Government of Saskatchewan, a financial statement showing a complete picture of what is owned, what is owed, the source of revenues and the nature of expenditures is required.

13.27 PSAAC has addressed the problem of financial reporting by governments. It has issued recommendations for preparing meaningful summary financial statements for governments. Also, PSAAC states that individual financial statements now produced would not be replaced by summary financial statements.

13.28 Public Sector Accounting Statement 2, Objectives of Government Financial Statements, states government financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises.

13.29 Accounting Statement 4, Defining the Government Reporting Entity provides guidance on which entities would be included in the summary financial statements. Accounting Statement 4 goes on to discuss which government entities should be consolidated and which should be accounted for by the modified equity method.

13.30 I recommend that summary financial statements for the Government of Saskatchewan be prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

Supplementary Information

13.31 The Standing Committee on Public Accounts in its April, 1975 report recommended the levels for detail to be shown in the Public Accounts text for wages and salaries, payments to suppliers and employee travel. The recommendation for aggregate information stated:

> *"Your Committee considered the question of the amount of detail now appearing in the Public Accounts text. Your Committee recommends that the levels for detail to be shown in the Public Accounts be as follows:*
>
> *$20,000 per employee for wages and salaries*
> *$10,000 for payments to suppliers and*
> *$ 2,000 per person for travel and that where the aggregate of any person exceeds the limits throughout all departments, this aggregate amount is to be also shown." (emphasis added)*

13.32 The Public Accounts from 1976 through 1984 included a supplementary volume presenting an analysis by payee of payments on a government wide basis in response to this request. This volume has not been tabled since 1984.

13.33 The recommendation of the Standing Committee on Public Accounts with respect to the level of detail to be shown in the Public Accounts has not been rescinded.

Timeliness of Information

13.34 The Assembly usually considers the Executive government's spending plan for the upcoming fiscal year in the spring session of the Legislature.

13.35 Because the fiscal year of the Executive government ends on March 31, the Assembly does not have detailed information on that year's spending to consider when approving the spending for the upcoming fiscal year. Typically, the Assembly is provided with audited information from two years prior.

13.36 In the 1989 spring session of the Legislature, the Assembly considered the Executive government's spending plan for the fiscal year ending March 31, 1990. The Public Accounts for the year ended March 31, 1988 were tabled during that session.

13.37 In my opinion, accountability would be strengthened by providing the Assembly with detailed information on the current year's spending, in the same form as the Estimates, before the Assembly is called upon to authorize the upcoming year's spending.

PUBLIC EMPLOYEES BENEFITS AGENCY

13.38 The Public Employees Benefits Agency (Agency) administers the Public Employees Disability Income Fund (PEDIF) and the Public Employees Group Life Insurance Fund (PEGLIF).

Supervisory Controls

13.39 Important to an appropriate system of management control are controls which permit management to effectively discharge its responsibilities of reviewing, analyzing and controlling operations of an organization. A key element of such a system is an effective interim financial reporting and monitoring system.

13.40 The Agency's procedures manual includes a section describing the monthly procedures and the year-end cut-off policies and procedures to be followed. The purpose is to ensure monthly and annual financial statements can be properly prepared on a timely basis.

13.41 For the year ended December 31, 1988, the required procedures were not performed until April, 1989 for the PEDIF and May, 1989 for the PEGLIF.

13.42 In addition, there was no review by management to ensure that the above procedures were properly performed and that the annual financial statements were properly prepared.

13.43 Not performing these procedures resulted in the monthly and annual financial statements not being prepared on a timely basis, and could result in accounting errors occurring without detection in a timely manner.

13.44 This matter was reported in the 1988 annual report.

Investment Income

13.45 The current agreement with the administering insurance company delegates the responsibility of investment management to the insurance company.

13.46 However, it is still important to have timely procedures in place to ensure the delegated responsibilities are met under the terms of this agreement. One such procedure would be a check of income earned on investments to ensure earnings are complete.

13.47 During the audit it was observed that investment income, including dividend earnings for equity investments and interest earnings for bonds and short term investments, were not being checked in a timely manner.

13.48 This weakness could result in errors in investment income which may not be detected by the Agency on a timely basis.

Other Matter

13.49 Section 1020-3-1 (f) - "Special Purpose Funds - Indemnity Funds", of the Financial Administration Manual requires, "a semi-annual investment report detailing the portfolio investments be submitted to the Investment Board by the Department every six months."

13.50 During the examination it was noted the PEDIF and the PEGLIF did not submit semi-annual investment reports to the Investment Board.

Public Employees Dental Fund, Year Ended December 31, 1987

13.51 The Public Employees Dental Fund (Fund) is administered by the Agency.

13.52 The audit of the Fund indicated that the Agency's rules and procedures to safeguard and control public money were not sufficient and there was an instance of non-compliance with a legislative authority.

Timely financial statements

13.53 The Agency has a procedures manual which includes a section describing monthly posting procedures and year-end cut-off policies and procedures. The purpose of this section of the manual is to ensure monthly and annual financial statements of the Fund are properly prepared on a timely basis.

13.54 For the year ended December 31, 1987, the required procedures were not started until August, 1988 and were not substantially completed until July, 1989.

13.55 As a result, the financial statements were not prepared on a timely basis.

Bank transfers

13.56 The Agency uses an external administrator to pay claims on the Fund. The external administrator maintains a bank account for the purpose of paying claims. On a regular basis, the external administrator transfers funds required to cover the claim payments to its bank account.

13.57 The Agency's rules and procedures require the Agency's staff to check the bank transfers and perform bank reconciliations on a timely basis.

13.58 During the audit it was observed that the bank transfers were not checked and the bank reconciliations were not completed on a timely basis.

13.59 This could result in unauthorized or incorrect transactions not being detected by the Agency on a timely basis.

Dental claims

13.60 Dental claim forms are approved for payment after Agency officials check to ensure all required information and signatures are present.

13.61 These forms are then sent to the external administrator for payment. The external administrator sends a cheque directly to the claimant and returns the processed claim forms together with a report which details the claims paid to the Agency.

13.62 The Agency's rules and procedures require the Agency's staff to check to ensure payments are properly supported and are reimbursed at the approved rates.

13.63 The Agency's staff, however, did not check to ensure that payments made by the external administrator were supported by properly approved claim forms.

13.64 In addition, the Agency's staff did not check to ensure the claims were correctly reimbursed using the approved rate schedule and the maximum allowable claim reimbursement had not been exceeded.

13.65 As a result, unauthorized or incorrect payments may be made by the external administrator and not be detected by the Agency.

Contribution revenue

13.66 When contributions are received from participating employers, a clerk records the contributions in a cash mail record. Another clerk prepares the bank deposit and records the receipts in a contribution ledger. This clerk also reviews the contribution ledger to ensure that each participating employer has remitted contributions for each month.

13.67 There was, however, no independent check to ensure that all monies received and recorded in the cash mail record were deposited to the bank.

13.68 In addition, there was no independent review or balancing of the contribution ledger to ensure that contributions were remitted each month by each participating employer.

13.69 As a result, contributions not received, deposited and/or recorded by the Agency would not be detected on a timely basis.

Non-compliance with legislation

13.70 Section 31(1) of The Revenue and Financial Services Act states:

> *"Under the direction of the minister, the agency is responsible for:*
>
> *(a) establishing, operating, administering or managing any superannuation plan or benefits program that is designated by the Lieutenant Governor in Council;"*

13.71 During the year all participating employers were granted a premium holiday for the period July 1, 1987 to March 31, 1988. The estimated forfeited premium revenue to the Plan during this period was approximately $2,432,000. This reduced contribution revenue for the 1987 fiscal year by $1,618,873.

13.72 The Agency did not obtain approval from the Minister to grant the premium holiday.

13.73 As a result, the Agency did not comply with the legislative requirement of Section 31(1) of The Revenue and Financial Services Act.

SPECIAL WARRANTS

13.74 It is fundamental to our parliamentary system of government that the Executive should not be allowed to spend public money without the prior approval of the Assembly.

13.75 The Assembly, however, provides the Executive with the authority to spend public money, by special warrant, without prior approval. This action is only permitted when an expenditure is urgently and immediately required for the public good.

13.76 In 1988/89, the Executive authorized the spending of approximately $1.2 billion by special warrant.

13.77 The Assembly alone must judge whether conditions existed which permitted the Executive to spend this public money without its prior approval.

13.78 Where the Executive has authorized the spending of public money by special warrant, the Executive is required to include that amount in the next Appropriation Act. The law also requires the Provincial Auditor to report where a special warrant authorized the payment of public money.

13.79 It was observed that all payments made by the authority of special warrants were included in the next Appropriation Act.

DEPARTMENT OF HEALTH

Table of Contents

	Paragraph
Postage Payments	14.01
Loan Agreements	14.05
Battlefords Regional Care Centre	14.09
Segregation of Duties	14.10
Supervisory Controls	14.15
Medical Care Insurance Branch	14.20
Parkland Regional Care Centre	14.25
Regina General Hospital	14.29
Approval Documentation	14.30
Contingency Planning	14.35
Saskatchewan Prescription Drug Plan	14.39
Year Ended March 31, 1988	14.39
Bank reconciliations	14.41
Accounting manual	14.45
Records destruction	14.48
Souris Valley Regional Care Centre	14.50
Accounting Records	14.51
Financial Statements	14.54
Wascana Rehabilitation Centre	14.58

14

DEPARTMENT OF HEALTH

14.00 The audit disclosed the following payments which were not properly vouchered or certified.

Postage Payments

14.01 Saskatchewan Property Management Corporation (SPMC) bills the Department monthly for postage service.

14.02 The Department does not, however, keep adequate records of the quantity of mail processed. In addition, there is no information on the postage invoices to indicate the volumes of mail processed and rates being charged to the Department. Consequently, the Department is unable to properly assess the validity and accuracy of the postage invoices.

14.03 In my opinion, postage payments to SPMC totalling approximately $1.5 million were not properly vouchered or certified.

14.04 I am advised that the Comptroller has agreed to study this issue on a department wide basis.

Loan Agreements

14.05 Loan agreements have been signed between the Department of Health, SPMC and various Saskatchewan hospitals under which SPMC has provided funds to these hospitals for capital projects.

14.06 The repayment of principal and interest to SPMC is made by the Department on behalf of these hospitals. The agreements provide that interest is to be paid "at a rate to be determined from time to time by the Minister of Finance."

14.07 The Department did not have any procedures to ensure that the interest charged by SPMC was at rates determined by the Minister of Finance and as required by the agreements.

14.08 In my opinion, interest payments to SPMC of $5,363,433 were not properly vouchered or certified.

BATTLEFORDS REGIONAL CARE CENTRE

14.09 The audit revealed there were deficiencies in the rules and procedures to safeguard and control public money.

Segregation of Duties

14.10 The rules and procedures did not adequately segregate the duties of employees.

14.11 Segregation of duties is inadequate when one person can conceal an error or fraud.

14.12 Incompatible functions were performed by one employee who assumed the duties performed by the Director of Finance who was on sick leave for several months. The Centre's procedures manual did not provide policies to be followed when such a situation developed. The employee was responsible for the following duties:

- supervision of payroll preparation, personnel function and cheque signing;
- preparing bank deposits and reconciling them to the cash mail record; and
- preparing the monthly bank reconciliation, posting the general ledger and preparing financial statements.

14.13 It was also noted that cash receipts were not always deposited on a timely basis.

14.14 The above deficiencies could result in a misappropriation of assets and the alteration of records to conceal the misappropriation.

Supervisory Controls

14.15 During the audit it was noted that the management control system did not provide timely and accurate financial reports.

14.16 An important element in any system of management controls is careful review and supervision by senior management and the Board at key points within the control system to detect any breakdown in controls.

14.17 It was noted that certain financial accounting records, including the general ledger, bank reconciliations and monthly/quarterly financial statements were not being prepared on a timely basis. It was also noted that the fixed asset subledger was not reconciled to the fixed asset control account.

14.18 These conditions are the result of non-compliance with established procedures as opposed to an absence of control procedures.

14.19 The above deficiencies restrict the ability of senior management and the Board of Directors to effectively supervise the operations of the Regional Care Centre.

MEDICAL CARE INSURANCE BRANCH

14.20 One element of internal control is a system of organizational controls which provides for segregation of duties among employees. This segregation of duties ensures no one employee is in complete control of a transaction.

14.21 Section 1110-4.03 of the Financial Administration Manual requires Departments to follow this internal control principle.

14.22 During the audit, it was noted that:

- cheques were signed by one person using the cheque signing machine;
- the person who operated the cheque signing machine also performed the bank reconciliations; and
- control over blank cheques was not adequate.

14.23 In my opinion, the Department's procedures were not sufficient to safeguard and control public monies.

14.24 Further, the Department has not complied with Section 1110-4.03 of the Financial Administration Manual.

PARKLAND REGIONAL CARE CENTRE

14.25 The audit determined that the Centre's rules and procedures for safeguarding and controlling capital equipment were not sufficient.

14.26 The Centre maintains a detailed capital equipment listing as an aid to safeguard the Centre's investment in furniture, fixtures and equipment.

14.27 However, the Centre has not established procedures for a periodic physical count of capital equipment which would ensure the Centre's recorded investment in furniture, fixtures and equipment is supported by physical assets.

14.28 This matter was reported in the 1987 annual report.

REGINA GENERAL HOSPITAL

14.29 During the audit the following deficiencies were noted in the rules and procedures to safeguard and control public money.

Approval Documentation

14.30 One element of internal control is a system which ensures that each transaction has been properly authorized. This system should incorporate a series of checks to ensure that transactions are accompanied with the appropriate authorization.

14.31 The hospital's payroll system requires all employee timesheets and adjustments to payroll for hours worked to be approved by the Department heads.

14.32 During the audit, it was determined that the Department heads' approvals were not always documented on the employees' timesheets. Also, payroll adjustments were made from verbal information from Department heads.

14.33 As a result, there was not sufficient documentation that all payroll cheques were properly authorized.

14.34 I have been informed by management that action has been taken to correct this weakness.

Contingency Planning

14.35 An organization must establish a contingency plan to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or damaged, whether they be manual or computerized records.

14.36 During the examination, it was observed there was not a documented and tested contingency plan in place to recover or reconstruct critical computerized records in the event of major loss or destruction.

14.37 Also, it was noted that although there were adequate copies of the patient billing and accounts receivable data files, these copies were not stored at an appropriate location away from the computer processing facility.

14.38 I have been advised by management that a documented contingency plan is now being developed.

SASKATCHEWAN PRESCRIPTION DRUG PLAN

Year Ended March 31, 1988

14.39 The Department of Health administers the Saskatchewan Prescription Drug Plan.

14.40 During the audit it was observed that the Department's rules and procedures to safeguard and control public money were deficient as follows:

Bank reconciliations

14.41 An entity's accounting records are used as the basis for management decisions and external reporting. Therefore, an important element in an adequate system of management controls are procedures to ensure the accuracy of the amounts recorded in the records of the entity.

14.42 Checking recorded transactions to external evidence is one method of ensuring the accuracy and reliability of critical accounts.

14.43 The Department's procedures require a regular reconciliation of the cash balance reported by the bank to the amount recorded in the cash account of the general ledger.

14.44 During the audit, it was observed that the Department's staff did not reconcile the bank statement to the cash account in the general ledger on a timely basis. For example, the March 31, 1988 bank reconciliation was not performed until October, 1988.

Accounting manual

14.45 An accounting policy and procedures manual is important because it helps to ensure all desirable controls are established, all employees have a clear understanding of their responsibilities and the procedures they should perform, and continuity of rules and procedures during periods of staff turnover and system changes.

14.46 It was observed that the Department did not have an accounting policies and procedures manual for the operations of the Prescription Drug Fund. Also, there were major system changes introduced during the fiscal year.

14.47 As a result, the financial statements for the year ended March 31, 1988 were not made available for audit purposes until May, 1989.

Records destruction

14.48 The invoices and claims supporting the payments of $918,000 for oxygen for the year were destroyed.

14.49 Accordingly, it was not possible to verify whether these payments were properly vouchered or certified.

SOURIS VALLEY REGIONAL CARE CENTRE

14.50 During the audit, deficiencies were noted in the Centre's rules and procedures to safeguard and control public property.

Accounting Records

14.51 It is fundamental to good internal control that systems are established to ensure authorized transactions are completely and accurately recorded in the accounting records.

14.52 It was observed that after December, 1988, journal entries processed by an outside data centre were not checked to the journal entries sent to the outside data centre. This checking is necessary to ensure the entries have been accurately recorded in the Centre's accounting records.

14.53 I have been advised by management that journal entries are now being checked.

Financial Statements

14.54 Essential are rules and procedures that enable the timely preparation of accurate financial statements including careful supervision by management to ensure prescribed procedures are adequately completed.

14.55 It was observed that the Centre had not documented financial statement cut-off policies to ensure the preparation of accurate financial statements. As a result, there were cut-off errors in accounts payable.

14.56 Also, management did not have documented procedures for adjusting accumulated depreciation on assets disposals. As a result, there were errors in accumulated depreciation.

14.57 When management was made aware of these errors, the financial statements were adjusted.

WASCANA REHABILITATION CENTRE

14.58 The Wascana Rehabilitation Centre is engaged in a $50 million construction project that depends on substantial funding from other parties.

14.59 Written agreements are important to protect the rights and interests of all parties to the project. Written agreements also avoid future misunderstandings. Ideally, these agreements should be in place before money is spent.

14.60 There is a 1985 Order-in-Council authorizing the Workers' Compensation Board (WCB) to enter into an agreement to provide capital funding up to $12 million for that part of the project being developed for services to injured workers.

14.61 There is no written agreement with WCB. However, the Centre is receiving money from WCB for the project.

14.62 I am informed that agreements with WCB are being negotiated.

14.63 I recommend a written agreement be completed as soon as possible to protect the rights of both parties.

DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

Table of Contents

	Paragraph
Delegated Authorities	15.00
Local Purchase Orders	15.02
Other Contracts	15.06
Quarterly Financial Statements	15.16
Safeguarding of Public Money	15.19
Contingency Planning	15.20
Documentation	15.23
Segregation of Duties	15.26
Area Daily Work Reports	15.30
Non-Compliance With Authorities	15.34
Payments Not Properly Vouchered	15.37

15

DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

DELEGATED AUTHORITIES

15.00 Inherent in an appropriate system of management controls are rules and procedures that ensure transactions are executed in accordance with delegated authority.

15.01 The following deficiencies in the rules and procedures to ensure compliance with delegated authority were noted.

Local Purchase Orders (LPO)

15.02 The guidelines of the Purchasing Agency state that in normal conditions where the purchase value is in excess of $100 an LPO must be authorized by officials named in Treasury Board Order #1.

15.03 It was observed that LPO's issued in these circumstances were not being approved by officials designated by TBO #1.

15.04 This matter was also reported in the 1987 annual report.

15.05 Management has informed me that it is taking action to remedy this weakness.

Other Contracts

15.06 It is management's responsibility when entering into long-term lease commitments to ensure the interests of the organization are well protected and to ensure payments are properly authorized.

15.07 Section 552-6 of the Financial Administration Manual (FAM) also provides the following direction regarding alternatives to be considered in the rental of equipment:

> *"A department analyzes the cost and benefits of:*
>
> *i) renting from a government source;*
> *ii) renting from a non-government source;*
> *iii) purchasing the equipment.*
>
> *Factors to consider when evaluating these alternatives are:*
>
> *i) length of time the equipment is required;*
> *ii) ready availability of equipment;*

> *iii) estimated useful life of the equipment;*
> *iv) service requirements."*

15.08 Also Section 10 of The Highways and Transportation Act states:

> *"All contracts entered into under this Act shall be in writing and shall be signed by the minister or by an officer of the department so authorized by the minister."*

15.09 The Minister's delegation of authority under this section regarding agreements, contracts and leases for rental of office equipment is contained in section FA204-2 and FA206-17 of the Department's FAM.

15.10 During 1988/89, the Department entered into lease agreements with Saskatchewan Property Management Corporation (SPMC) for the rental of computer and word processing equipment. These lease agreements were for a period of one month. The total contract value of these agreements amounted to $1,404,548 and was paid to SPMC in March, 1989.

15.11 The total contract value was based on SPMC's actual purchase cost plus administration fees, and under the agreements, the payments were to be made immediately rather than spread out over a period of time.

15.12 Also, according to the terms of the agreements, the equipment remains the property of SPMC and the only interest the Department has in this regard is that of a lessee. The Department is also required to return this equipment to SPMC upon termination of the agreements.

15.13 The estimated useful life of the computer and word processing equipment leased is four to five years. I was informed the Department's understanding was that the contract was to give the Department quiet possession of the equipment for the duration of its useful life. However, by signing short term lease agreements with the restrictive clauses mentioned above, Department officials did not ensure that the Department would in fact have quiet possession for the entire useful life period. The Department is currently negotiating with SPMC to renew and amend the lease agreements.

15.14 Furthermore, these agreements were signed by an official who did not have the minister's delegated authority as required by section 10 of The Highways and Transportation Act.

15.15 As a result, these agreements were entered into without authority because the Department did not comply with section 10 of The Highways and Transportation Act and the Provincial Comptroller's FAM section 552-6.

Quarterly Financial Statements

15.16 The quarterly financial statements for the Highways Revolving Fund submitted to Treasury Board were not accurate and complete. The accounting system currently being used is incapable of producing complete quarterly financial statements prepared on an appropriate basis of accounting. The main reason for this appears to be that the general ledger accounts cannot be reconciled to the subsidiary records until after manual adjustments are made after the year end.

15.17 As a result, the Department has not complied with the requirements to submit quarterly financial statements to Treasury Board.

15.18 This matter was also reported in the 1987 annual report.

SAFEGUARDING OF PUBLIC MONEY

15.19 The following deficiencies were noted in the Department's rules and procedures to safeguard and control public money.

Contingency Planning

15.20 An organization must have the ability to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or destroyed, whether they be manual or computerized records.

15.21 During the audit it was observed that there was no documented and tested contingency plan in place to recover or reconstruct critical computerized records in the event of major loss or destruction.

15.22 I have been informed the Department is in the initial stages of developing a contingency plan.

Documentation

15.23 Documentation of policies and procedures is an important control to help to ensure all other controls are established, to ensure all employees have a clear understanding of their responsibilities and to safeguard the investment in systems design. The importance of documentation is increased in computer based systems because of the cost and complexity of the systems.

15.24 To ensure documentation is effective in computer based systems, rules and procedures must be established to ensure the documentation standards are followed and documentation is updated after each change is made to the system.

15.25 During the examination, it was observed the Department had no stated documentation standards.

Segregation of Duties

15.26 During the audit it was observed there was inadequate segregation of duties.

15.27 Segregation of duties is inadequate when one employee can conceal an error or fraud.

15.28 During the year, storekeepers at the Highways Revolving Fund were responsible for receiving goods and suppliers' invoices as well as completing and recording the Supplies Transaction Documents to update perpetual inventory records. In addition, these documents were not always counter signed by the supervisor in accordance with the Department's procedures for the Revolving Fund.

15.29 I have been informed that management is taking steps to remedy this weakness.

Area Daily Work Reports

15.30 Area Daily Work Reports are produced to show the usage of construction and maintenance equipment rented to customers by the Highways Revolving Fund.

15.31 Department policy requires these reports to be reviewed and approved by the Area Maintenance Supervisor to ensure that only authorized use is made of Revolving Fund assets.

15.32 However, evidence does not always exist that these reports are approved by the Area Maintenance Supervisor.

15.33 This weakness could result in unauthorized use of the Revolving Fund assets.

NON-COMPLIANCE WITH AUTHORITIES

15.34 Section 9(a) of The Purchasing Act requires the Director of Purchasing (an employee of SPMC) to pay to the Minister of Finance monies received from the disposition or re-issuing of supplies.

15.35 The Act also states that these monies are to form part of the Consolidated Fund "...and be credited to the favour of the public agency that placed the supplies under the control of the director...".

15.36 During the year, the Director disposed of Highways Revolving Fund assets and received $1,417,120 in proceeds. The Revolving Fund, however, received credit for only $1,275,728. The remainder was retained by the Director and was recorded as revenue of SPMC.

PAYMENTS NOT PROPERLY VOUCHERED

15.37 During the year the Department paid approximately $34,000 (before participation credit) to SPMC for rental of salt sheds.

15.38 These salt sheds were constructed and paid for by the Highways Revolving Fund and are recorded in the Revolving Fund's accounts as fixed assets.

15.39 In my opinion, rental payments on these sheds were not properly vouchered or certified.

DEPARTMENT OF JUSTICE

Table of Contents

	Paragraph
Contingency Planning	16.01
Access Controls	16.05
Documentation	16.14
Trust Moneys Not Recorded	16.17
Prince Albert Correctional Centre	16.20

16

DEPARTMENT OF JUSTICE

16.00 The audit revealed that the Department's rules and procedures to safeguard and control public money were deficient as follows.

Contingency Planning

16.01 It was observed that there is not a documented and tested contingency plan in place to recover or reconstruct critical computerized records in the event of major loss or destruction.

16.02 An organization must have the ability to maintain continuous operations during abnormal circumstances. This includes the ability to recover or reconstruct critical records which are lost or destroyed, whether they be manual or computerized records.

16.03 The weakness observed allows the possibility that, if damage or destruction occurs to critical computerized records, it could be difficult for the department to recover in a timely and efficient manner.

16.04 I have been informed that the Department is in the initial stages of developing a contingency plan.

Access Controls

16.05 Segregation of duties is important so that one person can not conceal an error or fraud.

16.06 With computerized systems, physical segregation of duties is often lost. Instead, this segregation of functions is often achieved through restrictions on the ability to access data or programs residing on the computer. Therefore, control over computer access is significant.

16.07 The Department uses an outside data centre for some of its computer processing needs. During the audit it was observed that control over access to the computer was deficient as follows.

16.08 Staff should have access to only those computer programs and data necessary for the performance of their duties. It was observed that some programs and data were unrestricted and, therefore, could be accessed by all computer users.

16.09 The Department should have a record of the staff given authority to access specific computer programs and data. It was observed that the Department did not have a record of who had authority to access computer programs and data.

16.10 To ensure that the Department's programs and data are not destroyed or altered by mistake during planned changes to the Department's programs, there should be areas within the computer restricted to testing and systems development. It was observed that the Department had not established separate test and production areas within the computer.

16.11 The Department also uses its own computer for some of its computer processing needs.

16.12 A review was not performed of all non-active accounts to ensure that the individuals are current employees of the Department and continue to require access to the system.

16.13 These weaknesses allow the possibility of unauthorized changes to program and data files which may not be detected by processing controls in place.

Documentation

16.14 Documentation of policies and procedures is an important control to help ensure all other controls are established, to ensure all employees have a clear understanding of their responsibilities and to safeguard the investment in systems design when employees turn over. The importance of documentation is increased in computer based systems because of the cost and complexity of the systems.

16.15 To ensure documentation is effective in computer based systems, rules and procedures must be established to ensure documentation standards are followed and documentation is updated after each change is made to the system.

16.16 During the audit it was observed the department had not established minimum documentation standards for both systems development and on-going maintenance.

Trust Moneys Not Recorded

16.17 A characteristic of internal control is a system of accounting controls which ensures that transactions are promptly recorded in the correct amount and period and properly classified.

16.18 During the audit it was observed that the funds held on behalf of nine trust accounts were invested in bank term deposits and treasury bills. These investments totalling $5.8 million were not recorded in the Local Registrar's accounting records nor were they included in the Local Registrar's monthly report to the Court Services Division of monies held in trust.

16.19 In my opinion, essential records were not maintained to safeguard and control public money.

Prince Albert Correctional Centre

16.20 If inmates were sentenced to fines or incarceration in default, they may obtain release by paying their outstanding fines. These fines may be paid after normal business hours when no administrative staff are on duty.

16.21 The staff member receiving the fine payments is required to prepare a fine calculation form and record the funds received on a cash mail record.

16.22 This information and the monies received are submitted to the accounting office the following morning, together with notices of discharge. However, the accounting office's accounting procedures did not require a balancing of the notices of discharge to the monies submitted for deposit and the cash mail record.

16.23 It was determined that there were instances of monies being received during the evening shift and not submitted to the accounting office for deposit. The loss was not detected as the accounting office did not compare the notices of discharge to the monies submitted for deposit and the cash mail record.

16.24 Losses of $23,000 occurred over the period from September, 1987 to May, 1989 and were identified by the department's internal auditor in May, 1989.

16.25 I was informed by management that the employee involved was charged in connection with the loss and was subsequently convicted.

DEPARTMENT OF PARKS, RECREATION AND CULTURE

Table of Contents

	Paragraph
Contingency Planning	17.00
Segregation of Duties	17.02
Non-Compliance With Authorities	17.06
Timber permits	17.06
Revolving fund	17.10

17

DEPARTMENT OF PARKS, RECREATION AND CULTURE

Contingency Planning

17.00 It is important that organizations have the ability to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or destroyed, whether they are manual or computerized records.

17.01 The Department does not have a documented and tested plan in place to recover or reconstruct critical computerized records in the event of loss or destruction.

Segregation of Duties

17.02 With computerized systems, physical segregation of duties is often lost. Instead, this segregation of functions is often achieved through restrictions on the ability to access data or programs residing on the computer. Therefore, control over computer access is significant.

17.03 For those systems operated at outside data centres, security software is used to restrict access by defined users to predetermined computer data or programs.

17.04 During the examination, it was determined that these access controls were not being appropriately administered.

17.05 This allows the possibility of unauthorized changes to program and data files which may not be detected by processing controls in place.

Non-Compliance With Authorities

Timber permits

17.06 The Forest Regulations contain rules regarding timber permits. In order to issue a permit, the rules require:

- all expired permits must be returned; and
- an affidavit or declaration that the permits have been lost or destroyed

17.07 Timber permits are being issued without prior permits being returned or an affidavit or declaration being received.

17.08 This concern was reported in the 1987 and 1988 annual reports.

17.09 The 1988 annual report indicated the Minister advised that the Department intended to continue with its present actions in this regard as to do otherwise would result in an unfair disruption of sawmills which operate on a year round basis. The Minister also advised that the Department would develop firm plans to remove Section 14(c) of the Forest Regulations at the earliest appropriate time.

Revolving fund

17.10 The Department manages a fund called the Resource Protection and Development Revolving Fund.

17.11 The Renewable Resources, Recreation and Culture Act determines the programs that can be financed through this fund.

17.12 The Department has financed the following programs which are not approved programs:

Program	Total Expense
Fish enhancement	$ 250,665
Forestry (Reforestation)	4,935,905
Cottage lot lease program and lease collection services provided by the Department staff for Northern Revenue Sharing Trust Account	301,910
	$5,488,480

17.13 This matter was reported in the 1988 annual report.

18

DEPARTMENT OF SCIENCE AND TECHNOLOGY

18.00 The Department administers a grant program for advanced technology development. Under this program applicants receive grants for approved expenditures.

18.01 During the year a company became eligible to receive $16,530 under the advanced technology development program.

18.02 This company made an assignment of its grant under this program. The grant was to be paid to the Federal Government to reduce an interest free loan the company previously received from the Federal Government for bridge financing.

18.03 The bridge financing loan provided to the company by the Federal Government was jointly funded by the Provincial Government. The terms of the joint funding arrangement provided that when a company repays its bridge financing loan, a pro rata portion of the money received is returned to the Provincial Government.

18.04 When the Provincial Government receives money under the bridge financing program it becomes revenue of the Consolidated Fund in the year it is received.

18.05 The Comptroller makes the payments under the advanced technology development program based upon payment vouchers duly authorized by officials of the Department of Science and Technology.

18.06 Under an amendment to the bridge financing agreement, the Federal Government waived its right to 50% of the proceeds of these provincial grants in favour of the Provincial Government. The Department of Science and Technology, therefore, wished to set-off the advanced technology development grant against the bridge financing loan. In order to record the set-off, the Comptroller was asked to draw a cheque out of the Consolidated Fund payable to the Minister of Finance rather than to the Federal Government or the company. The cheque was to be deposited back into the Consolidated Fund as revenue as soon as it was issued.

18.07 The cheque was made payable to the company in error and has not been recovered from the company.

18.08 In my opinion, incorrect payments of this nature could be avoided if journal entries were used to record set-offs rather than issuing cheques.

DEPARTMENT OF SOCIAL SERVICES

Table of Contents

	Paragraph
Saskatchewan Assistance Plan	19.00
Payment Without Authority	19.10
Saskatchewan Skills Development Program	19.10
Employment Development Program	19.13

19

DEPARTMENT OF SOCIAL SERVICES

Saskatchewan Assistance Plan

19.00 In the fiscal year ended March 31, 1989, the Department of Social Services paid $197 million to recipients of assistance under the Saskatchewan Assistance Plan (SAP).

19.01 Details of the conditions required for payment, and amounts payable under specific circumstances are specified in The Saskatchewan Assistance Act and the Saskatchewan Assistance Regulations. These regulations generally place the onus on the recipient to fully and accurately disclose the circumstances surrounding the need for assistance.

19.02 The Department's ability to verify the information provided by the recipient is restricted by resources available and must be balanced against the responsibility to be responsive to the needs of each recipient.

19.03 Given these difficulties, assistance payments are sometimes made in excess of that permitted by legislation. These payment errors result from errors made by the Department's staff and errors made by the recipients in disclosing their circumstances.

19.04 The Department has established internal controls to prevent and detect these errors. It has established a target error rate for overpayments of 4% of total assistance payments.

19.05 To monitor the error rate, the Department's Financial Quality Control Unit performs audits on a statistical sample of monthly payments. Another objective of the Unit is to make recommendations regarding improvements to the Department's verification procedures.

19.06 During the audit, it was noted that the Department had made considerable improvement to the system of controls which prevent and detect overpayments in assistance.

19.07 The Department reduced its average error rate for the 1988/89 fiscal year to 6.4% or $12.6 million. Also, it was noted that by the end of the 1988/89 fiscal year, the monthly overpayment error rate had been further reduced to approximately 5.5%.

19.08 This compares to an overpayment error rate in the prior year of 8.7% or $17.3 million. Three years ago (1985/86 fiscal year) the overpayment error rate was 13.9% or $26.7 million.

19.09 Continued effort will be required to meet the target overpayment error rate of 4% or $7.8 million.

Payment Without Authority

Saskatchewan Skills Development Program

19.10 The Department of Social Services administers the Saskatchewan Skills Development Program under the Department of Social Services Act.

19.11 During the audit it was noted that this program has not been established by regulation as required by Section 19 of the Act. Payments under this program totalled $5.9 million for the 1988/89 fiscal year.

19.12 In my opinion, these payments totalling $5.9 million were made without authority.

Employment Development Program

19.13 Section 17 of The Government Organization Act permits the Minister to enter into agreements on behalf of the Department. The approval of the Lieutenant Governor in Council is required where expenditures under an agreement are liable to exceed $10,000.

19.14 During the year the Department of Social Services entered into agreements in excess of $10,000 with various non-government organizations under the Employment Development Program.

19.15 Payments under these agreements totalled $100,848. However, the approval of the Lieutenant Governor in Council was not obtained for these agreements.

19.16 In my opinion, these payments totalling $100,848 were made without authority.

20

DEPARTMENT OF URBAN AFFAIRS

Northern Revenue Sharing Trust Account

20.00 During the audit, the following instance was noted where an expenditure was made for which there was no authority or which was not properly vouchered or certified.

20.01 The Department of Parks, Recreation and Culture deducted $390,000 from lease revenues collected on behalf of the Northern Revenue Sharing Trust Account.

20.02 Their is no agreement or arrangement with the Department of Parks, Recreation and Culture allowing the deduction of costs of collecting the lease revenue. Management responsible for the Trust Account was not aware of the breakdown of the costs charged to the Trust Account and had no documentation to support the validity of this charge.

20.03 Accordingly, these costs, which are reflected as expenditures in the Trust Account records, were not capable of being properly vouchered.

21

NEW CAREERS CORPORATION

Fixed Assets

21.00 During the audit the following management control deficiency was noted.

21.01 There was an absence of control procedures to ensure the completeness and accuracy of the fixed asset records.

21.02 In order to safeguard and control public property, it is necessary to have a record of the assets for which an organization is responsible.

21.03 The Corporation keeps a fixed asset record which is changed from time to time based on written notices from project superintendents. The Corporation's accounting system does not allow for a matching of the written notices from project superintendents to the payments for the purchase of fixed assets or the receipts from the disposition of fixed assets.

21.04 The current system allows the following, which may not be detected by management within a timely period:

- fixed assets may be purchased and not recorded in the fixed asset record;
- fixed assets may be sold or otherwise disposed of and not be recorded in the fixed asset record; and
- fixed assets purchased may be recorded at an incorrect amount.

21.05 The audit disclosed a number of instances where the fixed asset record was inaccurate for the reasons previously stated.

21.06 I have been informed by management that action has been taken to correct this weakness.

Non-Compliance With Authority

21.07 Section 41 of The Financial Administration Act requires the Corporation to obtain the Minister of Finance's approval to borrow money.

21.08 The Corporation's bank account was overdrawn during the fiscal year without the Minister of Finance's approval.

21.09 Subsequent to the audit, I have been informed by the Corporation's management that the necessary approval to borrow has been obtained.

22

NORTHERN FOREST OPERATIONS LTD.

22.00 Northern Forest Operations Ltd. is a subsidiary of the Saskatchewan Forest Products Corporation.

22.01 During the audit, the following management control deficiencies were noted.

Supervisory Controls

22.02 There was no documented evidence that senior management or the Board of Directors reviewed interim (period end) financial statements in sufficient detail to detect errors or irregularities that would be material to the company.

22.03 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors to monitor the performance of the management. A key element of such a system is an effective interim financial reporting system so that management and the Board of Directors have financial information to assess the performance and adjust operations as necessary to meet targets established.

22.04 There were significant adjustments made to the financial statements for period 13, the final interim reporting period, which related to operations of the prior period. Also, there were significant correcting entries identified by the appointed auditor at year end.

Segregation of Duties

22.05 Due to staff limitations, an adequate segregation of duties was not maintained throughout the year to ensure one person was not in a position to conceal an error or fraudulent activity. Management did not exercise sufficient other controls to compensate for this deficiency.

22.06 Essential to an appropriate system of management controls is an organizational plan to ensure that there is a segregation of duties among employees, to ensure no one person is responsible for the authorization, record keeping and the custody of assets. This will ensure no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

22.07 The following employees' duties were not adequately segregated:

- One employee periodically takes responsibility for preparation of the bank deposit and at the same time is responsible for recording of cash receipts in the accounting records. This employee also periodically takes responsibility for initiation of payments for supplier invoices, approving voucher packages for payment and is one of two signers required for manual cheques.

- Another employee is responsible for maintaining accounts receivable records, mailing of customer statements and at times has responsibilities for recording cash in the cash book.

23

OFFICE OF THE EXECUTIVE COUNCIL

23.00 The Office's rules and procedures were deficient to ensure expenditures for postage were for services rendered to the Office.

23.02 Saskatchewan Property Management Corporation (SPMC) bills the Office for postage.

23.03 The Office does not, however, keep records of the quantity of mail processed. Also, the invoice from SPMC does not provide information about the volume of mail processed and the rates charged for mail service. Therefore, the Office cannot properly assess the validity and accuracy of the postage invoices.

23.04 In my opinion, postage payments to SPMC totalling $136,000 were not properly vouchered or certified.

23.05 I am advised that the Comptroller has agreed to study this issue on a department wide basis. Also, I have been informed by management that, pending resolution of this problem, records will be kept to assess the validity and accuracy of postage charges.

24

POTASH CORPORATION OF SASKATCHEWAN

24.00 The Provincial Auditor reported in his 1988 annual report that he was unable to examine the Board of Directors' minutes.

24.01 At the Premier's request, the Provincial Auditor referred his request for access to the minutes to the Chairman of the Crown Management Board of Saskatchewan (CMB) on September 12, 1989. The Chairman of CMB retired on October 31, 1989.

24.02 The Provincial Auditor then referred his request for access to minutes to the Acting Chairman of the CMB on November 17, 1989.

24.03 The Acting Chairman of the CMB wrote the Provincial Auditor on November 28, 1989 and indicated he was having the matter looked into and trusted that it could be resolved to the satisfaction of all parties involved.

24.04 As at the date of this report, the Board of Directors' minutes have not been examined.

25

PROVINCIAL SECRETARY

Members of the Legislative Assembly Superannuation Fund

25.00 The audit revealed the following instance of non-compliance with authorities.

25.01 Section 26.1 of the Legislative Assembly Superannuation Act, 1979 (Act) states:

> *"Where a person who was a member and:*
>
> *a) is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or*
>
> *b) was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under Section 37.1;*
>
> *dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life."*

25.02 When a member who has been receiving the annual allowance and the supplementary allowance dies, the pension to a spouse is calculated at the 60% rate of both the annual (section 19) and the supplementary allowance (section 26.1). In each of the years following the death of the member the spouse receives 100% of the new annual supplementary allowances granted to the spouse.

25.03 It is my view that the 60% rule contained in section 26.1 would apply to the supplementary allowances granted to the deceased member's spouse after the date of death of the member as well as before the member's death. Therefore, the failure to reduce all supplementary allowances to spouses after the date of death to 60% means that all new supplementary allowances granted after the date of death of a member exceed the amounts that would be permitted under the current legislation.

25.04 This matter was reported by the Provincial Auditor in the 1988 annual report. The report indicated the matter was considered by the Standing Committee on Public Accounts on April 24, 1986 and the recommendation of the Committee was delayed pending the receipt of further information and further consideration. The information requested was a comparison of the retiring allowances granted to surviving spouses for all Saskatchewan public sector plans.

25.05 The information comparing retiring allowances for Saskatchewan public sector plans was provided to the Standing Committee on Public Accounts May 1, 1986 as research document #E14/86.

25.06 The Committee has not made a recommendation on this matter.

25.07 However, the Minister responsible for the Fund has informed me that the Department of Finance will pursue a legislative amendment with respect to this matter.

26

SASKATCHEWAN AUTO FUND

26.00 The December 31, 1988 financial statements of the Saskatchewan Auto Fund (SAF) contain the following accounting policy in Note 1:

> *"Effective January 1, 1988, premiums in the amount of $25 per insurance policy are earned immediately for all vehicle policies with a post 1987 effective date. This was required as a result of an Automobile Accident Insurance Act amendment regulation which provides for a $25 policy cancellation fee."*

26.01 In previous years when a vehicle policy was cancelled the cancellation fee was recognized as earned.

26.02 In my opinion, the accounting policy of recognizing a cancellation fee as earned where there is no cancellation of a vehicle policy is not an appropriate accounting policy and is not required by the amendments made in late 1987 to The Automobile Accident Insurance Act Regulations. In my opinion, it is only appropriate to recognize a cancellation fee as earned when a vehicle policy is cancelled.

26.03 The effect of adopting this accounting policy in the 1988 financial statements was to overstate premiums earned by $8.9 million, understate premium taxes by $0.3 million, overstate the net increase (decrease) to the Rate Stabilization Reserve and overstate the Rate Stabilization Reserve by $8.6 million each.

26.04 The appointed auditor accepted the 1988 accounting policy for cancellation fees as appropriate.

26.05 Accordingly, we have a difference of opinion, and, therefore, in my opinion, the appointed auditor has issued an inappropriate report on the 1988 financial statements of the SAF. No additional audit work was required other than that necessary to verify the amounts reflected in paragraph 26.03.

26.06 This concern has been discussed with management responsible for the administration of the SAF and the appointed auditor.

26.07 Management agreed to revert to the accounting policy of recognizing cancellation fees only when a vehicle policy was cancelled and to restate their 1988 financial statements accordingly.

26.08 Management proposes to communicate this change in accounting policy in the 1989 annual report for the SAF in the following manner:

- by restating the 1988 comparative financial statements included in the annual report to give effect to the change;

- by giving note disclosure of the change in the 1989 financial statements; and

- by revising the accounting policy note for premiums.

26.09 When management carries out their proposed actions and when the 1989 annual report is tabled in the Legislative Assembly I will consider this matter satisfactorily concluded.

27

SASKATCHEWAN CENTRE OF THE ARTS

27.00 The audit revealed the following deficiencies in the Centre's rules and procedures to safeguard and control public money.

Policies and Procedures Manual

27.01 A policies and procedures manual is important because it documents the important policies of an organization and the rules and procedures necessary to achieve those policies.

27.02 This documentation is especially important during staff changes or changes in staff duties. During these periods, it is important for staff to know their responsibilities and roles in the accounting control procedures. Otherwise, the procedures necessary for adequate control may not be performed.

27.03 It was observed that the Centre's policies and procedures manual was not current and complete.

Fixed Assets Listing

27.04 To maintain accountability for and control over capital assets, a detailed fixed asset listing should be maintained.

27.05 This fixed asset listing should be in agreement with the amounts recorded for fixed assets in the general ledger.

27.06 Also, to ensure the fixed assets exist, the fixed asset listing should be periodically verified by physical inspection.

27.07 It was observed that the Centre did not maintain a current detailed fixed asset record.

27.08 As a result of this weakness, fixed assets may be lost or misappropriated without ready detection. Also fixed assets recorded in the fixed asset control account may not exist.

28

SASKATCHEWAN CROP INSURANCE CORPORATION

28.00 The Provincial Auditor reported in his 1988 annual report that he had not completed his audit procedures to determine if he could rely on the work and reports of the appointed auditor for Saskatchewan Crop Insurance Corporation for the year ended March 31, 1988.

28.01 The audit procedures are now complete for the years ended March 31, 1988 and March 31, 1989 and it was determined that the Provincial Auditor was unable to rely on the reports compiled in this annual report because the appointed auditor had not reported a deficiency in the rules and procedures used by the Corporation to safeguard and control public money as described in paragraphs 28.04 to 28.08.

28.02 The Provincial Auditor Act requires me to conduct additional audit procedures where I am not satisfied with the work and report of an appointed auditor.

28.03 The appointed auditor's audit procedures on the 1988 and 1989 accounts were sufficient to permit me to form my opinions and accordingly, no additional audit procedures on my part are required to discharge my responsibilities. The reporting or non-reporting of these matters in paragraph 28.01 is subject to judgement.

Segregation of Duties

28.04 The rules and procedures applied did not adequately segregate the duties of employees.

28.05 Segregation of duties is inadequate when one person can conceal an error or fraud. With computer systems, segregation of duties is achieved through restrictions on the ability of employees to access the computer and its programs and files.

28.06 The Corporation has not adequately restricted access to the Corporation's computer files.

28.07 Indemnity payments made by the Corporation amounted to $87,240,750 for the fiscal year ended March 31, 1988 and $465,603,032 for the year ended March 31, 1989. These payments are calculated by a computer program. The computer program uses the master files and data files created during the premium assessment process. Since there are not adequate access controls over the computer and its files and programs, the Corporation has no assurance that the master files are accurate.

28.08 In my opinion, the Corporation's rules and procedures were not sufficient to ensure the accuracy of indemnity payments.

28.09 I have been informed that the Corporation is in the process of developing a new computerized indemnity payment system which should address the above concern.

Payments Not Approved

28.10 During the year ended March 31, 1988, the Corporation received $1.1 million from the Consolidated Fund which was appropriated for Administration and spent the $1.1 million for the purposes of the Canada-Saskatchewan Water Fowl Crop Damage Compensation Program Fund.

28.11 In my opinion, the $1.1 million was not used for the purpose intended by the Assembly.

29

SASKATCHEWAN FOREST PRODUCTS CORPORATION

29.00 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of an organization.

29.01 During the audit it was noted that management's review of the financial statements and the accounting records were not performed in sufficient detail to detect errors or irregularities in the accounts which would be material to the operation of the Corporation.

29.02 The appointed auditor identified significant errors in the accounting records which had to be corrected in order to prepare financial statements in accordance with generally accepted accounting principles.

SASKATCHEWAN HOUSING CORPORATION

Table of Contents

Paragraph

Year Ended December 31, 1987 30.00

Non-Reliance on Appointed Auditor 30.00
Home Improvement Plan 30.05
Administration Costs 30.10
Borrowing Authority 30.15

30

SASKATCHEWAN HOUSING CORPORATION

YEAR ENDED DECEMBER 31, 1987

Non-Reliance on Appointed Auditor

30.00 The Provincial Auditor reported in his 1988 annual report that he had not completed his audit procedures to determine if he could rely on the work and reports of the appointed auditor for Saskatchewan Housing Corporation for the year ended December 31, 1987.

30.01 The audit procedures were completed in 1989 and it was determined that the Provincial Auditor was unable to rely on the appointed auditor's report compiled in this annual report for the following reasons:

- the report of the appointed auditor makes no reference concerning the lack of authority for the Home Improvement Plan;
- the report of the appointed auditor makes no reference to a charge of $1.3 million for administration costs applied to an appropriation in a manner not authorized by the Legislature; and
- the report of the appointed auditor makes no reference to an unauthorized borrowing which occurred in 1986 and continues.

30.02 The Provincial Auditor Act requires me to conduct additional audit procedures when I am not satisfied with the work and report of the appointed auditor.

30.03 The appointed auditor's audit procedures on the 1987 accounts were sufficient to permit me to form my opinions and accordingly, no additional audit procedures were required for me to discharge my responsibilities. The reporting or non-reporting of the matters in paragraph 30.01 is subject to judgement.

30.04 Further discussion regarding each of the matters in paragraph 30.01 follows:

Home Improvement Plan

30.05 During 1986 the Corporation introduced the Home Improvement Plan (Saskatchewan Home Program), which provided assistance to homeowners for improvements to their properties. This Plan included a grant program and a loan guarantee and interest subsidy program. During the audit examination, the following observations were made with respect to these programs.

30.06 Section 13 of The Saskatchewan Housing Corporation Act states that:

"The objects of the corporation are:

(a) to promote and carry out the construction and provision of more adequate and improved housing:

- *i) for low income families and individuals;*
- *ii) for students;*
- *iii) for such elderly persons or class or classes of elderly persons as may be designated by the corporation;*
- *iv) for families and individuals receiving social allowances or social assistance; and*
- *v) generally, for persons or groups which in the opinion of the corporation require assistance;*

(b) to improve the quality of housing; and

(c) to improve the quality of amenities related to housing."

30.07 A legal opinion was obtained by my office which holds that Section 13 does not extend to the Corporation power to improve the quality of housing and the quality of amenities related to housing generally, but restricts the Corporation's powers to housing for those disadvantaged groups or persons as they are enumerated in subsection 13(a).

30.08 The Corporation has obtained a legal opinion on this matter which includes a differing interpretation of Section 13 of the Act.

30.09 In light of the circumstances described above, I am not satisfied that the Home Improvement Plan had proper legislative authority and, accordingly, that the payments made were applied to purposes authorized by the Legislature.

Administration Costs

30.10 In the 1987/88 estimates, vote 51 subvote 14 reads as follows:

"Payment to Saskatchewan Housing Corporation for subsidies with respect to the Saskatchewan Home Program."

30.11 Vote 51 subvote 1 of the estimates reads as follows:

"Payment to Saskatchewan Housing Corporation

*- Net Operating Grant**

**This subvote is shown as Payment to Saskatchewan Housing Corporation - Administration... in the 1986-87 Main Estimates."*

30.12 The Corporation has charged administration costs of $1.3 million to subvote 14 rather than subvote 1.

30.13 In my opinion, administration costs should not be charged to subvote 14 as subvote 14 is for the expressed purpose of reimbursing the Corporation for subsidies paid under the Saskatchewan Home Program. A legal opinion was obtained by my office which supports this opinion.

30.14 Accordingly, in my opinion, the appropriation for subsidies under the Saskatchewan Home Program was applied in a manner not authorized by the Legislature.

Borrowing Authority

30.15 Section 39(1) of The Saskatchewan Housing Corporation Act states that:

> *"Subject to the approval of the Lieutenant Governor in Council the corporation may, for the purposes of the corporation, borrow from time to time such sums of money within the borrowing limitation prescribed by section 41 as the corporation may consider requisite..."*

30.16 In 1986 the Corporation entered into an agreement for a term bank loan of $950,000 without the required approval of the Lieutenant Governor in Council.

30.17 At December 31, 1987, the loan still had not received the approval of the Lieutenant Governor in Council and the amount owed on the loan was $859,000.

31

SASKATCHEWAN LIQUOR BOARD

31.00 The Alcohol Control Act (Act) was proclaimed January 2, 1989. The Act continued the Liquor Board as a body corporate and continued the appointment of its Chairman.

31.01 After a study had been completed, the Liquor Board changed its management structure and management remuneration.

31.02 The Minister-in-Charge signed a memorandum specifying the remuneration to be paid to the Chairman. The remuneration was different than the amount specified in Order-in-Council 371/87 which appointed the Chairman.

31.03 It is my opinion that since the chairman is appointed by Order-in-Council, his remuneration can only be changed by another Order-in-Council.

31.04 Therefore, the remuneration paid to the Chairman in excess of the amount specified in Order-in-Council 371/87 was without authority.

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

Table of Contents

Paragraph

Year Ended March 31, 1988 32.00

I. Internal Controls 32.04

Environmental controls 32.06
  Budgets 32.09
  Lack of Approval of Fees Charged 32.13

Accounting records 32.15
  Lack of Accounting Records to Support Transfers 32.18
  Dental Equipment 32.23
  CVA - Non Maintenance Lease Billings 32.28

Legislative compliance 32.32

Ministerial travel 32.35

II. Compliance With Authorities 32.43

The Purchasing Act and Regulations 32.45
  Purchases Without Proper Approvals 32.45
  Revenue Improperly Retained 32.50

The Queen's Printer Act 32.56

Loan Agreements 32.59

The Financial Administration Act 32.64

Agreement with the Department of Parks and Renewable Resources 32.71

III. Audit of Financial Statements 32.75

Depreciation on Real Estate Properties 32.76

Accommodation Revenue and Participation Credit 32.81

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

Table of Contents - continued

		Paragraph
	Furniture	32.86
	Real Estate Properties	32.94
	Accounting Policies	32.95
	Financial Statement Disclosure	32.100
	Improper Retention of Public Money	32.104
IV.	Matters of Form Regarding the Transfer of Assets	32.107

32

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

YEAR ENDED MARCH 31, 1988

32.00 An audit of the accounting records and related internal control of the Department of Supply and Services (Department) has been completed for the period April 1, 1987 to the date of discontinuance of the department at November 6, 1987.

32.01 Further, in accordance with Section 11.1(2) of The Provincial Auditor Act, additional audit work has been conducted with respect to the accounts of the Saskatchewan Property Management Corporation (SPMC) for the year ended March 31, 1988. The Act requires the Provincial Auditor to conduct additional audit work where he is unable to rely on the report of the appointed auditor.

32.02 In the 1988 Annual Report of the Provincial Auditor, it was reported that he was unable to rely on the work of the appointed auditor to form his opinion on the adequacy of SPMC's control systems to safeguard and control public property, on SPMC's compliance with authorities and on the fairness of presentation of SPMC's 1988 financial statements.

32.03 Consequently, additional audit work was done for the purpose of forming these opinions. This work consisted of:

- documentation, evaluation and testing of the adequacy of control systems used by management to safeguard and control public money;
- procedures to verify SPMC's compliance with the law; and
- an examination of the financial statements of SPMC for the year ended March 31, 1988 including such tests and other procedures considered necessary to form an opinion on the fairness of presentation of these financial statements

I. *INTERNAL CONTROLS*

32.04 I was unable to form an overall opinion on the system of internal control that existed during 1988 because at the time of the audit examination in late 1989, the system of internal control had changed significantly from the controls that were in place during 1988.

32.05 However, the following weaknesses in internal control were noted during the audit.

Environmental Controls

32.06 Essential to a system of internal control are environmental controls which create an environment where errors or fraud are either less likely to occur, or if they occur, are more likely to be detected.

32.07 Important environmental controls include the principal financial reports prepared for the Board such as budgets and interim financial statements, and the role played by the Board of Directors and senior management in maintaining the system of internal control.

32.08 Environmental controls were deficient in the following areas:

1. *Budgets*

32.09 There is no evidence that the Board approved a budget for the corporation.

32.10 Budgetary controls are important because they authorize a whole year's transactions in terms of expected results before the fiscal year starts. The budget also provides a way of analyzing results to determine if corrective action is necessary and to hold management accountable for the results of the operations to the Board. In order for the budgetary process to work, the board must approve a budget.

32.11 The board minutes for March 1987, indicated that there was discussion of a budget. However, there was no evidence in the board minutes that the Board of Directors of SPMC approved a budget for SPMC and the minutes contained no details of the budget discussed.

32.12 Further, management refused a request by my staff to see the document discussed by the Board.

2. *Lack of Approval of Fees Charged*

32.13 Section 12(1)(0) of The Saskatchewan Property Management Corporation Act indicates the Board of SPMC may fix, levy and collect fees, rates, interest or charges on account of providing any services, facilities accommodation or property.

32.14 However, there was no evidence in the board minutes to indicate that the Board had approved the actual rates charged by SPMC for providing services, facilities accommodation or property.

Accounting Records

32.15 A basic element of internal control is a system of procedures to ensure that all transactions are recorded promptly and accurately in the accounting records.

32.16 The accounting records form the basis for the financial information prepared by a corporation and should be retained to support the financial reports generated by the corporation and the management decisions based on these reports.

32.17 The following accounting record control deficiencies were noted.

1. *Lack of Accounting Records to Support Transfers*

32.18 The audit determined there was insufficient documentation to determine whether or not internal controls were adequate to ensure that all properties previously administered by the Department were accurately compiled in the transfer agreement to SPMC.

32.19 Management indicated that documentation had been prepared to reconcile the listing of properties administered by the department with the properties listed in the transfer agreement. Management further indicated that this documentation, which was in the form of a computer data base, had been destroyed.

32.20 Because of this lack of documentation, audit tests were performed to reconcile the listing of properties administered by the Department, dated March 26, 1987, to the transfer agreements.

32.21 It was noted that a large number of properties included in the listing maintained by the Department and administered by SPMC were not included in the transfer agreements.

32.22 In my opinion, the accounting records did not adequately document the transfer of assets previously administered by the Department to the administration of SPMC.

2. *Dental Equipment*

32.23 During the year ended March 31, 1988, the Saskatchewan Dental Plan equipment was transferred to SPMC (Sales and Salvage Branch) from the Department of Health.

32.24 Branch personnel indicated that they had prepared an inventory record of the dental equipment received. However, the Branch personnel did not follow their established procedures of tagging the assets received and recording the tag numbers on the "Miscellaneous Property Transfer" form.

32.25 Also, this inventory record was not reconciled to the "Miscellaneous Property Transfer" form completed by the Department of Health.

32.26 Furthermore, audit tests revealed that a number of items on SPMC's inventory records of dental equipment did not exist. Subsequent investigations by Branch personnel revealed that these items had been sold but the inventory records had not been updated.

32.27 In my opinion, SPMC did not have adequate procedures to control the dental equipment.

3. *CVA - Non Maintenance Lease Billings*

32.28 During the audit it was observed that the accounting records were inadequate to ensure that only authorized rents were charged on vehicles.

32.29 The appointed auditor detected an underbilling to a customer of $483,510. Management indicated that this error was caused by problems with the automated system which had calculated the charges incorrectly.

32.30 Management has stated that an adjustment invoice was issued for this error and there was no loss of revenue to the Corporation.

32.31 Management has further indicated that for the year ended March 31, 1989, SPMC has implemented a new billing system and other manual procedures to detect and correct billing errors on a timely basis.

Legislative Compliance

32.32 Section 5 of Saskatchewan Regulation 10/76 requires purchase requisitions to be signed by officers of public agencies whose signatures have been registered with the Purchasing Agency.

32.33 It was noted during the audit, the Director of the Purchasing Agency did not maintain a register of authorized signatures for print requisitions.

32.34 As a result, SPMC did not have an adequate system to ensure that all print requisitions issued by public agencies were properly authorized.

Ministerial Travel

32.35 The 1988 annual report reported that SPMC did not bill government departments for ministers' use of executive aircraft as required by the Financial Administration Manual (FAM) issued by the Provincial Comptroller.

32.36 SPMC management has stated that this cost was absorbed by SPMC in 1987/88 and that in management's view SPMC is not subject to the FAM.

32.37 They further indicated that although no charge was made to the departments, the cost of ministerial travel on executive aircraft was included in the Public Accounts for 1987/88 as a supplementary schedule. This supplementary schedule was tabled after the Provincial Auditor's 1988 annual report was prepared.

32.38 In my opinion, tabling of a supplementary schedule does not provide the budgetary control that billing the government departments for ministers' use of executive aircraft would provide. Also, a reader may incorrectly assume that the costs in the supplementary schedule were also included in departmental expenditure detail.

32.39 I also report that the failure to bill for ministers' use of executive aircraft renders the budgetary controls over ministers' travel on executive aircraft set out in the FAM ineffective.

32.40 Management indicated that SPMC has started to bill for minister's use of executive aircraft for the year ended March 31, 1989.

32.41 The 1988 annual report also reported that SPMC refused to provide the Provincial Auditor information about ministerial travel expenses.

32.42 I report that I have now received the information that was previously refused.

II. *COMPLIANCE WITH AUTHORITIES*

32.43 I have made an examination to determine whether SPMC has complied with the provisions of the legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1988.

32.44 In my opinion, SPMC has not complied with the legislative and related authorities as described previously and as described below.

The Purchasing Act and Regulations

1. *Purchases Without Proper Approvals*

32.45 The Purchasing Act and Regulations were not complied with because public agencies have purchased supplies without prior approval of The Purchasing Agency.

32.46 Section 28 of Saskatchewan Regulation 10/76 made under the authority of The Purchasing Act permits public agencies to purchase supplies without prior approval of the Agency under emergency situations defined in Section 27 of the Regulations.

32.47 During the audit, instances were noted where public agencies purchased supplies without prior approval of the Purchasing Agency. However, these supplies were not purchased under emergency conditions as defined in Section 27 of the Regulations.

32.48 Further,there was no evidence that disciplinary action was taken with respect to the contravention of Section 27 of Regulation 10/76 as required by Section 6(1) of The Purchasing Act. There was also no evidence the Director of Purchasing had satisfied himself that these contraventions were inadvertent or unintentional as required by Section 6(2) of The Purchasing Act.

32.49 Management has informed my representatives that they have subsequently taken steps to correct this matter.

2. *Revenue Improperly Retained*

32.50 SPMC has improperly retained revenue from the sale of surplus assets which should have been deposited in the Consolidated Fund.

32.51 Section 9 of The Purchasing Act requires moneys received by the Purchasing Agency from the disposition of supplies to be deposited into the Consolidated Fund if the supplies were purchased from moneys appropriated from the Consolidated Fund.

32.52 During the year ended March 31, 1988, $591,000 was received by the Purchasing Agency from the sale of surplus dental equipment purchased from money appropriated out of the Consolidated Fund. The sale proceeds were not deposited into the Consolidated Fund.

32.53 In addition, management of SPMC advised that $484,000 received from the sale of other surplus assets purchased from money appropriated out of the Consolidated Fund was also not deposited into the Consolidated Fund.

32.54 The sale proceeds in both cases were treated by SPMC as being revenue of the Corporation and have been reflected as such in the financial statements.

32.55 Consequently, the revenue reported in the Corporation's March 31, 1988 financial statements is overstated by $1,075,000.

The Queen's Printer Act

32.56 SPMC has not complied with Section 7 of The Queen's Printer Act.

32.57 Section 7 of The Queen's Printer's Act requires that the minister shall prescribe the price of subscriptions to The Saskatchewan Gazette.

32.58 Management was unable to provide evidence to indicate that the minister had prescribed the price of subscriptions for 1988 as required by law.

Loan Agreements

32.59 Loan agreements were signed between Ministers of the Crown, SPMC and public institutions, for example, hospitals and universities. SPMC then provided funds to these organizations for capital projects.

32.60 The agreements provide that interest was to be paid "at a rate to be determined from time to time by the Minister of Finance calculated half yearly not in advance".

32.61 During the audit, it was observed there was no evidence that the interest rates used by SPMC were determined by the Minister of Finance. Further, audit tests indicate that the interest was calculated on a per diem basis and added to the loan monthly, not half yearly as required by the agreements.

32.62 Consequently, in my opinion, interest on loans was not calculated in accordance with the provisions of loan agreements.

32.63 Management has informed my representatives that the loan agreements have subsequently been amended and that they now agree with the practice followed by SPMC.

The Financial Administration Act

32.64 The 1988 annual report of the Provincial Auditor reported that SPMC charged the Department of Parks and Renewable Resources $1.4 million for the use of CL 215 aircraft.

32.65 It was also reported that there was insufficient information in the appointed auditor's files to determine the reason for this charge because SPMC was not assigned responsibility for these aircraft.

32.66 Volume 2 of the 1986-87 Public Accounts states that the Revolving Funds in the Department were "wound up at the close of business on March 31, 1987 and subsequently all of the assets were transferred to the Consolidated Fund for subsequent transfer to the Saskatchewan Property Management Corporation". As a result, these assets came under the administration of the Minister of Finance.

32.67 An agreement dated May 25, 1988, was signed by the Minister responsible for The Public Works Act and The Purchasing Act, the Minister of Finance, and by the President and Chief Financial Officer of SPMC.

32.68 This agreement transferred the Revolving Fund assets to SPMC effective April 1, 1987, but specifically excluded the CL 215 aircraft. As a result, these aircraft remained property of the Consolidated Fund under the administration of the Minister of Finance.

32.69 Section 25 of The Financial Administration Act provides that: *"All public money, other than...money otherwise specially disposed of by the Legislature is to form one consolidated fund..."*.

32.70 Since the CL 215 aircraft have not been lawfully allocated to SPMC, the $1.4 million collected for the use of these aircraft on behalf of the Minister of Finance should be paid into the Consolidated Fund.

Agreement with the Department of Parks and Renewable Resources

32.71 SPMC has entered into an agreement with the Department of Parks and Renewable Resources for the construction of Public Works in Provincial Parks.

32.72 Under Section 5 of this agreement, the Department of Parks and Renewable Resources is required to administer construction work "as a general contractor for and on behalf of SPMC, and will account to SPMC in respect of all costs incurred in completion of such capital projects and remit full and complete particulars duly supported by vouchers, receipts, contracts, engineers and architects certificates and all other documents and things customarily obtained and provided in respect of works of the nature and kind currently in progress."

32.73 During the year, SPMC paid an amount of $1.8 million under the agreement for costs incurred on capital projects. None of the payments were supported by the documents required by the agreement with the Department of Parks and Renewable Resources.

32.74 As a result, the payments were not properly vouchered and certified.

III. *AUDIT OF FINANCIAL STATEMENTS*

32.75 I have examined the March 31, 1988 financial statements of SPMC. In my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of SPMC in accordance with generally accepted accounting principles except as described in the following paragraphs.

Depreciation on Real Estate Properties

32.76 The financial statements include the following policy for depreciating properties:

> *"Depreciation on properties is recorded on a straight line basis over their estimated useful lives, commencing in the first fiscal year after acquisition or completion of construction."*

32.77 This policy is not appropriate in my opinion. In the textbook, "Accounting Standards in Evolution", R. M. Skinner states:

> *"The theory is that depreciation should begin when the asset is capable of rendering service, whether it does or not. As a practical matter, companies follow two or three shortcuts with respect to depreciation on new assets routinely acquired. A half-year's depreciation may be written in the year of addition and one-half year's at the end, or a full year's depreciation in the first year and none in the year of disposal, or the reverse. These shortcut approaches are, however, acceptable only because their deviation from a policy of accruing depreciation on new assets from their individual ready-to-serve date is immaterial. Depreciation should begin on major new additions at the proper date, regardless of the existence of any shortcut policy on routine purchases."* (emphasis added)

32.78 Other authoritative accounting literature agrees with Mr Skinner's views.

32.79 On April 1, 1987, approximately $300 million of properties were transferred to SPMC from government departments. Accommodation revenue was collected on these properties for the full year ended March 31, 1988, yet no depreciation was recorded on these properties.

32.80 If generally accepted accounting principles had been followed in the recording of depreciation on properties, depreciation expense would have been increased by $14.6 million and net income would have been reduced by $14.6 million.

Accommodation Revenue and Participation Credit

32.81 The 1988 Annual Report of the Provincial Auditor reported that the 1988 financial statements do not disclose the nature and significance of the Participation Credit of $43 million in the Statement of Income and Retained Earnings as required by generally accepted accounting principles.

32.82 SPMC receives substantially all of its revenues from government departments and agencies (related parties). The financial statements of SPMC for the year ended March 31, 1988 report accommodation revenue in the amount of $146 million and a participation credit expense of $43 million.

32.83 The participation credit is in substance a trade discount. When SPMC invoices its tenants, it deducts the participation credit from the rent to arrive at the net amount of rent actually charged on the invoice and paid by the tenants. Virtually all of SPMC's tenants are government departments and agencies which are authorized to pay only the amount of rent net of the participation credit.

32.84 Generally accepted accounting principles define revenue as being net of items such as trade and volume discounts. Accordingly, the participation credit in the amount of $43 million should be applied as a reduction of accommodation revenue reported in the financial statements.

32.85 As a result, the accommodation revenue and the related participation credit expense reported in the financial statements are each overstated by $43 million.

Furniture

32.86 It is management's position that the value of the furniture transferred is not material to the operations of SPMC and, therefore, furniture is not recorded in the financial statements of the Corporation.

32.87 This position is based on an analysis prepared by management which concludes that the value of the furniture transferred is at most $900,000.

32.88 This analysis is considered erroneous for the following reasons:

1. It assumes that government furniture has a useful life of 5 years. Since the majority of furniture in government offices is well in excess of 5 years old, this assumption is unrealistic.

2. It sets $500 as the amount below which furniture purchases would be expensed rather than capitalized. Based on the policy of only capitalizing fixed asset purchases in excess of $500, management have estimated that only 33% of furniture purchases would be capitalized.

   The practice of expensing fixed asset purchases under a certain level for administrative convenience is only condoned by generally accepted accounting principles as a matter of expedience where it does not materially distort periodic income measurement.

   It is not appropriate to ignore 67% of furniture purchases when evaluating whether or not the effect of capitalizing furniture is material to an enterprise.

3. SPMC does not have any detailed records of its furniture, nor does management have adequate support for the 5 year purchase figures used in the analysis.

32.89 It is my view that the furniture administered by SPMC is material to the Corporation. This view is supported by statistics included in the "Standard Office Allocation Listing" produced by the Department.

32.90 These statistics describe the cost of furniture to be provided to each level of government employee. The information states the 1985 cost of providing furniture for an employee is in the range of $500 to $8,600, depending on the level of the employee. In 1986/87 there were approximately 13,500 employees.

32.91 In my opinion, this information indicates the value of furniture is material. I cannot reasonably determine the precise value of the furniture because of the lack of detailed records of the furniture on hand.

32.92 In my opinion, the policy of not recording furniture is not in accordance with generally accepted accounting principles.

32.93 Further, the financial statements do not describe the policy for the valuation of the furniture as required by generally accepted accounting principles.

Real Estate Properties

32.94 The following observations were made during the audit of real estate properties transferred from government departments.

1. *Accounting Policies*

32.95 The corporation's policy and procedures manual prescribes the accounting policies for valuing real estate property transferred from government departments as follows:

> Properties constructed within five years of the date of transfer were valued at depreciated historical cost.
>
> Other real estate was valued as follows:
>
> i) "Market Based Properties", properties for which there were comparable properties in the market place were valued using generally accepted appraisal techniques.
>
> ii) "Special Purpose Properties", properties for which there was no comparable properties in the market place were valued at depreciated replacement cost.
>
> iii) "Asset Based Properties", properties consisting mainly of land holdings on which no value could be placed because they were invaluable, of historical significance or unpatented were valued at nominal cost, that is at $0 or $1.

32.96 Management have further indicated that they have valued the properties based on "value in use". This method is defined in the Canadian Institute of Chartered Accountants Handbook as "the present value of future net cash flows expected to result from the use of an asset by the enterprise and from its ultimate disposition".

32.97 During the audit it was observed that approximately 400 properties were assigned a value of $0 and virtually no rent was charged on these assets.

32.98 The practice of not charging rent on these properties is not consistent with the government's objective in establishing SPMC, which was to give an accurate picture of the real costs of government programs.

32.99 In SPMC's first annual report at March 31, 1987, the Chairman of the Board stated:

> *"As a Crown Corporation, the Corporation will operate with private sector business principles.... Private sector business principles, with market based pricing strategies will also give an accurate picture of the real costs of government programs. With this information, managers and the public will be able to judge their programs realistically. This is the key to maintaining and improving public sector services."*

2. *Financial Statement Disclosure*

32.100 Note 2(a) to the financial statements describes the accounting policy for real estate properties transferred from government departments as follows:

> *"Properties transferred from the Province of Saskatchewan are accounted for at the value determined by Generally Accepted Appraisal Techniques."*

32.101 In my opinion, this disclosure is not sufficient under generally accepted accounting principles because it does not disclose the other bases used by SPMC for valuing properties, as described above.

32.102 Note 11 to the financial statements does not describe the nature and extent of providing accommodation to government departments and agencies at no charge or nominal value for the 400 properties noted in paragraph 32.99 above.

32.103 It is my opinion that the accounting policies set out in the notes to the financial statements do not adequately disclose the accounting policies followed by the corporation for properties.

Improper Retention of Public Money

32.104 As described previously, the corporation has improperly retained money:

- in the amount of $1.1 million from the sale of various departments' surplus assets which is required by law to be paid to the Consolidated Fund; and
- in the amount of $1.4 million which should also be paid into the Consolidated Fund from the use of aircraft for which it has not been assigned responsibility.

32.105 SPMC has reported this money as revenue in its 1988 financial statements.

32.106 In my opinion, revenue is overstated by $2.5 million in SPMC's 1988 financial statements.

IV. *MATTERS OF FORM REGARDING THE TRANSFER OF ASSETS*

32.107 Real estate properties previously administered by government departments have been transferred to SPMC. As a result, management of SPMC were faced with the difficult task of valuing hundreds of pieces of property in order to produce information for financial reporting purposes. Management has made considerable progress in this regard.

32.108 However, further effort is necessary because it was noted during the audit that documentation supporting the transfer of assets from government departments to SPMC was not complete and accurate for a number of properties.

32.109 As previously stated, there were some four hundred properties transferred to SPMC that were assigned a nominal value. The reasons provided by management for assigning no value to these properties were:

- some of the properties were leased long term for a nominal amount, ie; they had no value in use;
- other properties were subject to ownership disputes; and
- other properties were to be transferred to other Crown agencies at nominal values.

32.110 An audit sample of 56 properties was selected to verify these nominal valuations. In many instances management was unable to provide documentary evidence to support these nominal valuations.

32.111 It was observed that the policies for valuing properties were not applied consistently. Also, errors were made in the transfer agreements regarding the valuation of certain properties.

32.112 Accurate and complete documentation is critical in this instance because SPMC is an agent of the Crown and holds property on behalf of the Crown.

32.113 Accordingly, there is no real transfer of property rights since the departments (or Ministers) and SPMC are not dealing at arm's length and are in reality both holding and/or administering property which belongs to the Crown. Even if things were properly documented, there would be no real transfer of ownership.

32.114 On the other hand, it is the Legislature itself that has decided to create SPMC and to have it account for the property administered by it, separately and distinctly from the Crown itself, as represented by one or more Ministers, or other Crown agencies.

32.115 Given the lack of substance in transactions between government entities, if one is to account for entities separately, then form becomes everything.

32.116 Therefore it is important that any "transfer" of property from another emanation of the Crown to SPMC be completely and accurately documented. Otherwise, there is no evidence of the transfer, and no management or audit trail which can be followed.

33

SASKATCHEWAN TRANSPORTATION COMPANY

33.00 During the audit it was noted that the Company had borrowed money beyond its authority.

33.01 The Company's borrowing limit according to Order-in-Council 450/86 was $8.8 million. During the year the Company exceeded the borrowing limit by $4.795 million. At the year end the Company's outstanding borrowing was $11.791 million.

34

WESTANK INDUSTRIES LTD.

34.00 Westank Industries Ltd. is a subsidiary of Saskatchewan Economic Development Corporation.

34.01 The Provincial Auditor reported in his 1988 annual report that he had not completed his audit procedures to determine if he could rely on the work and reports of the appointed auditor for Westank Industries Ltd. for the year ended September 30, 1987.

34.02 The audit procedures are now completed for the years ended September 30, 1987 and 1988 and the Provincial Auditor was able to rely on the work and report of the appointed auditor.

34.03 During the audit the following management control deficiency was noted.

34.04 The Corporation has a policy that requires prior approval of credit sales from senior management. It was observed that approvals were not always present.

34.05 Failure to obtain prior approvals increases the risk of losses from bad debts.

35

WESTERN DEVELOPMENT MUSEUM

35.00 During the audit the following deficiencies were observed in the rules and procedures to safeguard and control public property.

Fixed Asset Control

35.01 To maintain accountability for assets, a detailed fixed asset listing should be maintained and periodically verified by a physical count of the assets. The fixed asset listing should also be reconciled to the general ledger account.

35.02 A fixed asset listing is not maintained and verified by a periodic physical count.

35.03 In my opinion, the rules and procedures applied were not sufficient to control and safeguard fixed assets.

35.04 Management has informed my officials that a fixed asset listing is currently being prepared.

Inventories

35.05 To ensure accountability for and control over inventory, management should maintain inventory records or employ alternative procedures such as standard markups on inventory purchases. Management should also establish guidelines for inventory purchases at each museum.

35.06 Although management conducts a year end physical count of inventory, management does not have inventory records or other means of determining the amount of inventory that should be at each museum.

35.07 Also, management has not determined the quantity and type of inventory that should be maintained at each museum.

35.08 In my opinion, the rules and procedures applied were not sufficient to control and safeguard inventories.

APPENDIX I

An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

SHORT TITLE AND INTERPRETATION

1 This Act may be cited as The Provincial Auditor Act.

2 In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less then his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or funds established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservations of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14 Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act,

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23. The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25 The provincial auditor may examine any person or any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under The Public Inquiries Act.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act, and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to The Department of Finance Act, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

APPENDIX II

Reports of Appointed Auditors - Part I

The following is a list of Crown agencies where the appointed auditors' reports indicated there was nothing of significance to report in accordance with Section 12 of The Provincial Auditor Act. As mentioned in paragraph 35., the contents of these reports have not been reproduced because this annual report is an exception report.

I have reported earlier in the report where I have determined that I am unable to rely on the reports of the appointed auditors.

Crown Agency	Appointed Auditor
Carlton Trail Regional College	E.J.C. Dudley & Co.
CIC Industrial Interests Inc.	Ernst & Young
Crown Investments Corporation of Saskatchewan	
Pension Plan	
Retirement Income Fund	Ernst & Young
Pension Fund	Ernst & Young
Cumberland Regional College	Armstrong & Neumann
Cypress Hills Regional College	Stark & Company
586643 Sask. Ltd.	Ernst & Young
Municipal Financing Corporation of Saskatchewan	E.J.C. Dudley & Co.
Parkland Regional College	Skilnick & Partners
Power Corporation Superannuation Fund	Ernst & Young
Prairie Malt Limited	Price Waterhouse
Prairie West Regional College	Close, Perkins & Hauta
S.G.I. Superannuation Trust Fund	Coopers & Lybrand
Saskatchewan Auto Fund	Coopers & Lybrand
Saskatchewan Crop Insurance Corporation	Peat Marwick Thorne
Saskatchewan Development Fund	Arscott & Partners
Saskatchewan Development Fund Corporation	Arscott & Partners
Saskatchewan Economic Development Corporation	Deloitte & Touche
Saskatchewan Government Insurance	Coopers & Lybrand
Saskatchewan Government Printing Company	Mintz & Wallace
Saskatchewan Grain Car Corporation	Skilnick & Partners
Saskatchewan Minerals	Burroughs, Weber & Partners
Saskatchewan Mining Development Corporation	Ernst & Young
Saskatchewan Power Corporation	Ernst & Young
Saskatchewan Telecommunications	Deloitte & Touche
Saskatchewan Telecommunications International Inc.	Deloitte & Touche

Appendix II

Crown Agency	Appointed Auditor
Saskatchewan Telecommunications Superannuation Fund	Deloitte & Touche
South East Regional College	Fred V. Milliker
Souris Basin Development Authority	Matchett Potts & Seipp
The Future Corporation	Horachek Cannam Joa
Workers' Compensation Board	Peat Marwick Thorne
Workmen's Compensation Board Superannuation Fund	Peat Marwick Thorne

Reports of Appointed Auditors - Part II

Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of The Provincial Auditor Act, the contents of these reports are reproduced in this Part.

I have reported earlier in this report where I have determined that I am unable to rely on the reports of the appointed auditors.

The contents of the following reports are included:

	Page #
Agricultural Credit Corporation of Saskatchewan (March, 1988)	3
Crown Investments Corporation of Saskatchewan (December, 1988)	4
Northern Forest Operations Ltd. (October, 1988)	5
Saskatchewan Crop Insurance Corporation (March, 1988)	6
Saskatchewan Forest Products Corporation (October, 1988)	7
Saskatchewan Housing Corporation (December, 1987)	8
Saskatchewan Indian Regional College (June, 1988)	9
Saskatchewan Institute of Applied Science and Technology (June, 1988)	13
Saskatchewan Transportation Company (October, 1988)	14
Westank Industries Ltd. (September, 1987, 1988)	15

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

We have made a study and evaluation of the system of internal control of Agricultural Credit Corporation of Saskatchewan in effect as at March 31, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Credit Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal control of Agricultural Credit Corporation of Saskatchewan which could affect the preparation of financial statements in accordance with the appropriate basis of accounting. Reconciliations of certain loan program balances to respective general ledger control accounts were not up-to-date throughout the year. In our opinion, review and approval by appropriate officials of *these reconciliations is a very important internal control feature. In our opinion, this breakdown in internal control could result in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Agricultural Credit Corporation of Saskatchewan might occur and not be detected within a timely period.*

April 4, 1989
Price Waterhouse

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

We have, with regard to Crown Investments Corporation of Saskatchewan (CIC), examined and reported to the Legislative Assembly on:

- *the financial statements for the year ended December 31, 1988;*
- *the system of internal control as at December 31, 1988;*
- *compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1988.*

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, we found the following:

(1) Subsection 33(3) of The Crown Corporations Act, 1978, requires the Minister in charge, in accordance with the Tabling of Documents Act, to table the annual report before the Legislative Assembly fifteen sitting days after April 30 of the year following the corporation's year end.

During the audit it was noted that the Minister did not submit the December 31, 1987 annual report to the Legislative Assembly within the fifteen sitting days after April 30 as permitted by law.

(2) In our report of March 25, 1988 to the Members of the Legislative Assembly, we indicated that "... we found nothing of significance and of a nature which we believe should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of the Provincial Auditor Act." In forming our opinion we relied on the opinion of CIC's legal counsel which indicated that certain consulting payments were within the powers of the Corporation. On February 6, 1989 CIC's legal counsel amended his opinion and concluded essentially that it was unclear but doubtful that these payments were within CIC's powers.

> *Accordingly, with the benefit of this revised legal opinion, we report that in 1987 CIC made payments totalling $2.7 million, virtually all of which were beyond its statutory powers.*

In our opinion, except for the matters referred to in the preceding paragraph, Crown Investments Corporation of Saskatchewan has complied in all significant respects with the legislative and related authorities specified.

Based on the examinations referred to in this report, there are no matters other than those reported herein that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of The Provincial Auditor Report.

April 3, 1989
Ernst & Young

NORTHERN FOREST OPERATIONS LTD.

We have made a study and evaluation of the system of internal control of Northern Forest Operations Ltd. in effect as at October 31, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The Management of Northern Forest Operations Ltd. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) *the accounts are faithfully and properly kept to permit the preparation of the financial statements in accordance with the appropriate basis of accounting;*

b) *all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;*

c) *transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by Legislature and the expenditures have adequate statutory authority; and* *d)* *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.*

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of Northern Forest Operations Ltd. as at October 31, 1988 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Northern Forest Operations Ltd. may occur and not be detected within a timely period:

> *Due to staff size limitations, an adequate segregation of duties was not maintained throughout the year. In addition, management review of financial statements and related accounting records were not performed in sufficient detail to detect errors or irregularities in the accounts which would be material to the operations of the company.*

December 8, 1988
Price Waterhouse

SASKATCHEWAN CROP INSURANCE CORPORATION

We have examined the financial statements of Saskatchewan Crop Insurance Corporation for the year ended March 31, 1988 and have issued our report dated July 15, 1988 thereon to you. We have examined the system of internal control as at March 31, 1988 and have issued our report to you dated July 15, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Crop Insurance Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified, and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matters that in our opinion should be brought to your attention:

1. *Province of Saskatchewan Appropriation*

   During our examination, we noted that $1,100,000 of funds appropriated for administration (subvote 46-01) was transferred to the Canada-Saskatchewan Water Fowl Crop Damage Compensation Program Fund (subvote 46-02) without proper approval.

2. *Special Warrant*

   During 1988, a special warrant authorized the payment of $300,000 to the administration fund.

In our opinion, except for the matters referred to above, the Saskatchewan Crop Insurance Corporation has complied, in all material respects, with the provisions of Section 12(1) of the Provincial Auditor's Act.

July 15, 1988
Peat Marwick Thorne

SASKATCHEWAN FOREST PRODUCTS CORPORATION

We have made a study and evaluation of the system of internal control of Saskatchewan Forest Products Corporation in effect as at October 31, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Forest Products Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) *the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;*

b) *all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;*

c) *transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and*

d) *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.*

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal control of Saskatchewan Forest Products Corporation as at October 31, 1988 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Saskatchewan Forest Products Corporation may occur and not be detected within a timely period:

> *Management reviews of financial statements and accounting records were not performed in sufficient detail to detect errors or irregularities in the accounts which would be material to the operations of the company. In this respect, the system of internal control at Saskatchewan Forest Products Corporation did not provide management with reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with generally accepted accounting principles.*

December 16, 1988
Price Waterhouse

SASKATCHEWAN HOUSING CORPORATION

We have examined the financial statements of the Saskatchewan Housing Corporation for the year ended December 31, 1987 and have issued our report dated March 19, 1988 thereon to you. We have examined the system of internal control as at December 31, 1987 and issued our report to you dated March 19, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Saskatchewan Housing Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matters that in our opinion should be brought to your attention:

1. Home Improvement Program - Grants Payments

During our review and audit of grant payments made by the corporation under the Home Improvement Program we discovered a number of errors resulting in incorrect payments having been made. Specifically, payments totalling $991.79 were made on invoices dated prior to the program implementation date of September 1, 1986. Payments were made on improvements of questionable eligibility without supervisory approval or subsequent inspection of the premises. These payments totalled $532.40. Finally, clerical errors were found resulting in overpayments totalling $858.00 and underpayments totalling $489.42.

The above noted errors totalling a net combined actual and potential overpayment of $1,892.77 were found in a total sample of 444 grant payments totalling $502,364 in payments, selected on a monetary unit sampling basis.

2. Special Warrants

During 1987 special warrants authorized the payment of $1,800,000 under the First Time New Home Buyers' Program and $1,575,000 under the Senior Citizens Home Repair Program.

In our opinion, except for the matters referred to above, the Saskatchewan Housing Corporation has complied, in all significant respects, with the provisions of Section 12(1) of the Provincial Auditor's Act as amended.

March 19, 1988
Peat Marwick Thorne

SASKATCHEWAN INDIAN REGIONAL COLLEGE

We have made an examination to determine whether the Saskatchewan Indian Regional College complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1988:

The Community Colleges Act and Regulations
The Regional Colleges Act
The Community Colleges Accounting and Reporting Manual
The Regional Colleges Accounting and Reporting Manual
The Department of Finance Act, 1983

Appendix II

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatchewan Indian Regional College has not complied with the provisions of the aforementioned legislative and related authorities during the year ended June 30, 1988 in the instances noted below:

	Relevant Section
Community Colleges Act:	
- *There are ten members on the board instead of the prescribed four to seven. Seven of the members have been approved by the Lieutenant Governor in Council and three are acting without approval.*	*5(1)*
- *Budgets are not approved by the Department prior to adoption.*	*20(1)*
- *The appointment of auditors is not approved by the Lieutenant Governor in Council*	*17*
- *The College's personnel policy has not been approved by the Minister of Education.*	*8(1)*
Community Colleges Act Regulations:	
- *Budgeting procedures do not make reference to procedures documented in the Community Colleges Accounting and Reporting Manual.*	*10*
- *Permanent employees are not covered by a superannuation plan.*	*14*
- *Board members can serve for an unlimited length of time instead of the prescribed two terms.*	*9(2)*
- *Not all cheques are signed by the Treasurer and one other signing officer.*	*19*
- *The College purchased term deposits which are not bonds or securities of the Government of Canada or Saskatchewan.*	*14(d)*

Appendix II

Regional Colleges Act	*Relevant Section*
- *There are ten members on the board instead of the prescribed four to seven. Seven of the members have been approved by the Lieutenant Governor in Council and three are acting without approval.*	*7(2)*
- *Budgets are not approved by the Minister prior to adoption.*	*15(2)*
- *The appointment of auditors is not approved by the Minister of Education.*	*17(1)*
- *Board members can serve for an unlimited length of time instead of the prescribed two terms.*	*5*
- *The College's line of credit has not been approved by the Minister of Education.*	*21(1)*
- *The purchase of term deposits was not approved by the Minister of Education.*	*23*
- *Not all cheques are signed by the Treasurer and one other signing officer.*	*18(2)*
Department of Finance Act, 1983	
- *The College's line of credit has not been approved by the Minister of Finance.*	*41*

October 7, 1988
Price Waterhouse

We have made a study and evaluation of the system of internal control of the Saskatchewan Indian Regional College in effect as at June 30, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The Management of the Saskatchewan Indian Regional College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefit and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial

Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) *the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;*

b) *all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;*

c) *transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and*

d) *essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.*

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Saskatchewan Indian Regional College as at June 30, 1988 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Saskatchewan Indian Regional College may occur and not be detected within a timely period:

The preparation and review by senior management of balance sheet account information is not always performed on a timely basis.

During our examination we noted that interim balance sheet information is not always prepared and reviewed on a timely basis. This lack of interim financial reporting controls results in more than a relatively low risk that material errors or fraud may occur in balance sheet accounts and not be detected within a timely period.

October 7, 1988
Price Waterhouse

SASKATCHEWAN INSTITUTE OF APPLIED SCIENCE AND TECHNOLOGY

We have made a study and evaluation of the system of internal control of Saskatchewan Institute of Applied Science and Technology in effect as at June 30, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

Management of Saskatchewan Institute of Applied Science and Technology is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of the Provincial Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts have been faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) public money has been fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions have been executed in accordance with management's authorization, public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records have been maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, except as explained in the following paragraphs, the system of internal control of Saskatchewan Institute of Applied Science and Technology in effect as at June 30, 1988, taken as a whole, was sufficient to meet the objectives stated insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined by the Provincial Auditor.

> *Procedures with respect to contract revenue, consisting of the use of budgets and the review of actual costs, were not being consistently adhered to, which could result in an understatement of contract revenue.*

Procedures to ensure the accurate and timely accrual of contract revenue at Wascana Campus were not adhered to, which could result in an understatement of contract revenue.

Procedures for adequate documentation and approval of journal entries were not consistently complied with, which could result in misstatement in the accounts.

Procedures for the backup and retention of data stored on computer tapes were not adequate to ensure restoration of the data files in the event of a disaster.

System security over the information retrieval utility software was not adequate to ensure that system users could not bypass the normal system authorizations and edits. This could result in unauthorized changes to the data files.

November 30, 1988
Deloitte and Touche

SASKATCHEWAN TRANSPORTATION COMPANY

We are the auditors of the Saskatchewan Transportation Company ("STC") and under date of January 13, 1989, we rendered an unqualified opinion, in accordance with Section 11(3) of the Act, on the balance sheet of STC as at October 31, 1988, and the statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Further, we have examined the transactions that came to our notice in the course of examination of the financial statements of STC for the year ended October 31, 1988 to determine if they were in accordance with The Crown Corporations Act, and the Department of Finance Act (and any directives given to the Company pursuant to these Acts). Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Company's borrowing limit established by Order in Council 450/86 is $8,800,000. During the year, the Company exceeded that limit by $4,795,000, and at October 31, 1988, the balance of outstanding borrowing was $11,791,000.

In our opinion, except for the matter referred to in the preceding paragraph, these transactions were, in all significant respects, in compliance with the authorities specified.

Based on the examination referred to in this report, there are no matters, other than those reported herein and in the financial statements and our auditors' report thereon, that we *consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly.*

January 13, 1989
Peat Marwick Thorne

WESTANK INDUSTRIES LTD.

We have examined the consolidated financial statements of Westank Industries Ltd. for the year ended September 30, 1987 and have issued our report thereon dated December 20, 1987 to the Legislative Assembly. We have examined the system of internal control as at September 30, 1987 and have issued our report dated January 11, 1989 to the Provincial Auditor. We have also made an examination to determine whether Westank Industries Ltd. complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended September 30, 1987 and have issued our report dated March 1, 1989 to the Provincial Auditor. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Credit approvals were not always obtained for sales on credit which could have resulted in increased losses from bad debts.

In our opinion, except for the matter mentioned in the preceding paragraph, there are no instances for the year ended September 30, 1987 of significance or of a nature that should be brought to the attention of the Legislative Assembly.

March 1, 1989
Deloitte and Touche

We have examined the consolidated financial statements of Westank Industries Ltd. for the year ended September 30, 1988 and have issued our report thereon dated December 23, 1988 to the Legislative Assembly. We have examined the system of internal control as at September 30, 1988 and have issued our report dated January 11, 1989 to the Provincial Auditor. We have also made an examination to determine whether Westank Industries Ltd. complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of asset, spending, revenue raising, borrowing and investing activities during the year ended September 30, 1988 and have issued our report dated March 1, 1989 to the Provincial Auditor.

Credit approvals were not always obtained for sales on credit which could have resulted in increased losses from bad debts.

In our opinion, except for the matter mentioned in the preceding paragraph, there were no instances for the year ended September 30, 1988 of significance or of a nature that should be brought to the attention of the Legislative Assembly.

March 1, 1989
Deloitte and Touche

APPENDIX III

Audits Not Completed at March 9, 1990

The Standing Committee on Public Accounts has recommended an audit of every government agency every year.

This annual report includes all audits completed at March 9, 1990.

The Provincial Auditor stated in the 1988 Annual Report that this departure in practice was necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

All audits not completed at March 9, 1990 will be completed and the results of those audits will be reported to the Legislative Assembly in the next annual report.

This Appendix is presented in two sections. The first section contains a list of government agencies where all audit procedures have not been completed. The second section contains a list of government agencies where the appointed auditors have not submitted reports to be compiled in this annual report.

SECTION I

The audits not completed at March 9, 1990 are at various stages of completion. While all audit procedures may have been conducted on the books and records of a government agency, the audit is not considered complete until my officials discuss the findings with management of the agency. This process is necessary to allow management a chance to comment on the audit findings before they are reported to the Legislative Assembly.

The following audits are not fully completed at March 9, 1990:

Agricultural Development Corporation of Saskatchewan (December, 1988)
Lakeside Home (March, 1989)
North West Regional College (June, 1988)
Northlands Career College (June, 1988)
Potash Corporation of Saskatchewan (December, 1987, 1988)
Public Employees Annuity Fund (March, 1988, 1989)
Public Employees Benefits Agency Revolving Fund (March, 1989)
Public Employees Dental Plan (December, 1988)
Public Employees Superannuation Fund (March, 1988, 1989)
Public Service Superannuation Board (March, 1989)
Saskatchewan Agricultural Returns Stabilization Fund (March, 1989)
Saskatchewan Beef Stabilization Board (March, 1989)
Saskatchewan Housing Corporation (December, 1988)
Saskatchewan Prescription Drug Plan (March, 1988, 1989)
Saskatchewan Student Aid Fund (March, 1989)

Saskatchewan Water Corporation (December, 1988)
Stock Savings Plan Tax Credits (March, 1989)
Westbridge Computer Corporation (March, 1988, 1989)

SECTION II

The appointed auditors have not submitted reports to be compiled in this annual report for the following government agencies:

Agricultural Credit Corporation of Saskatchewan (March, 1989)
CAMECO (December, 1988)
Investment Corporation of Saskatchewan (December, 1988)
Saskatchewan Pension Plan (December, 1988)
Saskatchewan Property Management Corporation (March, 1989)

APPENDIX IV

List of Financial Statements and/or Annual Reports Not Tabled in the Legislative Assembly in the Manner Required By Convention:

Agricultural Development Corporation of Saskatchewan (December, 1987)
Agricultural Implements Board (March, 1986, 1987)
Crown Investments Corporation of Saskatchewan (December, 1987)
Doukhobors of Canada C.C.U.B. Trust Fund Board (May, 1987)
Fish and Wildlife Development Fund (March, 1988)
Judges of the Provincial Court Superannuation Fund (March, 1987, 1988)
Liquor Board Superannuation Fund (December, 1987)
Market Development Fund (March, 1988)
Members of the Legislative Assembly Superannuation Fund (March, 1986, 1987, 1988)
New Careers Corporation (April, 1987)
* Public Employees (Government Contributory) Annuity Fund (March, 1986, 1987, 1988)
* Public Employees (Government Contributory) Superannuation Fund (March, 1986, 1987, 1988)
Public Service Superannuation Board (March, 1988)
Saskatchewan Agricultural Research Fund Board (March, 1988)
Saskatchewan Auto Fund (December, 1987)
Saskatchewan Centre of the Arts (March, 1988)
Saskatchewan Computer Utility Corporation (December, 1987)
Saskatchewan Government Insurance (December, 1987)
Saskatchewan Government Printing Company (December, 1987)
Saskatchewan Grain Car Corporation (July, 1988)
Saskatchewan Heritage Fund (March, 1988)
Saskatchewan Pension Plan (December, 1987)
Saskatchewan Prescription Drug Plan (March, 1987, 1988)
Saskatchewan Student Aid Fund (March, 1987, 1988)
Saskatchewan Western Development Museums (March, 1988)
The Milk Control Board (December, 1987)
The Saskatchewan Agricultural Returns Stabilization Fund (March, 1988)
The Saskatchewan Arts Board (March, 1988)
The Saskatchewan Beef Stabilization Board (March, 1988)
The Saskatchewan Legal Aid Commission (March, 1988)
Water Appeal Board (March, 1988)

* These financial statements have not been subsequently tabled in the Legislative Assembly.